







*The*  
**ECONOMICS OF ADVERTISING**





*The*  
**ECONOMICS OF ADVERTISING**

By  
**F. P. BISHOP**

**ROBERT HALE LIMITED**  
18 Bedford Square, London, W.C. 1



# CONTENTS

	PAGE
INTRODUCTION . . . . .	9

## PART I: DESCRIPTIVE

CHAP.

I.	THE FUNCTIONS OF ADVERTISING . . . . .	17
	i. Information and Persuasion . . . . .	17
	ii. Advertising and Production . . . . .	21
	iii. Advertising and Distribution . . . . .	24
	iv. Advertising and the Consumer . . . . .	28
	v. Summary . . . . .	33
II.	THE MEANS OF ADVERTISING . . . . .	36
	i. The Press . . . . .	36
	ii. Posters and Outdoor Advertising . . . . .	43
	iii. Direct Mail . . . . .	46
	iv. Window-Dressing and Other Forms of Display . . . . .	47
	v. Radio, Cinema, and Some Other Media . . . . .	49
III.	THE ADVERTISING OUTPUT: I. TOTAL EXPENDITURE ON ADVERTISING. . . . .	54
	i. Some Earlier Estimates . . . . .	54
	ii. A New Analysis . . . . .	57
IV.	THE ADVERTISING BUSINESS . . . . .	66
	i. The Advertising Agent . . . . .	66
	ii. Specialised Advertising Services . . . . .	69
	iii. The Printer and the Press . . . . .	71
	iv. The Advertising Borderland . . . . .	74
	v. Advertising Organisations . . . . .	75
	vi. The Advertising Association . . . . .	79
V.	THE ADVERTISING OUTPUT: II. THE PRODUCTS ADVERTISED . . . . .	82
	i. The General Picture. . . . .	82

## CONTENTS

II. The Trade Groups: (1) Food and Drink; (2) Household Supplies; (3) Medicines; (4) Wearing Apparel; (5) Transport; (6) Toilet and Beauty Preparations; (7) Financial; (8) Entertainment; (9) Smoking; (10) Miscel- laneous . . . . .	86
III. Advertising and the Costs of Distribution . . . . .	100
IV. Advertising and Monopoly . . . . .	103

## PART II: ANALYSIS

VI. THE QUESTIONS STATED . . . . .	106
I. Is Advertising "Productive"? . . . . .	106
II. Informative and Persuasive Advertising . . . . .	109
III. Advertising and the Consumer . . . . .	112
IV. Advertising and the National Economy . . . . .	116
VII. THE CASE FOR ADVERTISING . . . . .	118
I. Advertised Goods Are Cheaper . . . . .	118
II. Advertised Goods Are Better . . . . .	124
III. Advertising and the Standard of Living . . . . .	128
IV. Summary of the Claims for Advertising . . . . .	130
VIII. THE CASE AGAINST ADVERTISING . . . . .	132
I. Advertising Leads to Higher Prices . . . . .	132
II. Advertising Promotes Monopoly. . . . .	136
III. Effects of Non-Price Competition . . . . .	138
IV. Defects of Advertising as a Guide to Consumers . . . . .	141
V. "A Waste of National Resources" . . . . .	142
IX. POINTS OF VIEW . . . . .	146
I. The Business Man and the Economist. . . . .	146
II. Advertising in Modern Economic Theory . . . . .	151
III. Advertising and "Market Imperfections" . . . . .	155
IV. Attempts to Measure "Consumer Satis- factions". . . . .	157
V. Scientific Method and the Real World . . . . .	161

## CONTENTS

<b>X.</b>	<b>ADVERTISING AND EMPLOYMENT . . . . .</b>	<b>165</b>
	<b>i. The Modern Theory of Employment . . . . .</b>	<b>165</b>
	<b>ii. The Deficiency of Demand . . . . .</b>	<b>167</b>
	<b>iii. Wider Issues . . . . .</b>	<b>170</b>
	<b>iv. Problems of a Planned Economy . . . . .</b>	<b>172</b>
	<b>v. The Borden Inquiry in America . . . . .</b>	<b>176</b>
<b>XI.</b>	<b>TOWARDS CONCLUSIONS . . . . .</b>	<b>180</b>
	<b>i. Mainly Personal . . . . .</b>	<b>180</b>
	<b>ii. Subjects for Inquiry . . . . .</b>	<b>186</b>
	<b>iii. The Key Questions . . . . .</b>	<b>189</b>
	<b>iv. Conclusion . . . . .</b>	<b>196</b>
<b>INDEX . . . . .</b>		<b>197</b>



## INTRODUCTION

**THE** subject of advertising has recently attracted a good deal of public interest and speculation. There are several reasons for this. People who hardly gave advertising a thought in the days before the war have become acutely aware of its existence now when it is used by the Government on an unprecedented scale to convey advice, appeal and direction to the citizen. Alongside the announcements of Government Departments there still appear in the press and on the hoardings many of the commercial advertisements which were familiar in the days of peace, though the goods to which they refer are in short supply or even wholly unobtainable. Is this really necessary? Is it compatible with whole-hearted devotion to the war effort?

The reply given by the advertisers inevitably raises new and wider questions. They point out, among other things, that millions of pounds have been spent in years gone by on creating goodwill for the advertised names and brands, and that a modest expenditure now is necessary as a sort of insurance premium to keep that goodwill alive against the day when consumption goods are in plentiful supply once more, and competition among the brands is restored. They point out also that the press, even in its reduced war-time sizes, is largely dependent upon the revenue from advertisements, and that the continuance of commercial advertising is a necessary condition of its freedom.

These arguments are perfectly valid and perhaps unanswerable if we are agreed that after the war we wish to return to the familiar economic system under which private enterprise and free competition determined the supply of goods for consumption, and under which, as a by-product of commercial competition, advertising supplied the means that kept a free press going. But do we wish to return to that system? In retrospect we see that it was by no means



## THE ECONOMICS OF ADVERTISING

perfect. It failed to cure unemployment and it tolerated great inequalities in the distribution of wealth. Were these defects inherent in the system, or were they due to abuses which could be removed without changing the system itself? For example, was excessive competition by advertising one of the causes of our pre-war troubles?

These are questions many people are asking to-day. They are stimulated by the silent but profound revolution which has been going on in economic thought. The classical economists paid little attention to advertising, for their system was based upon two assumptions which seemed to exclude any real necessity for the persuasive selling of goods. They assumed that the unhindered working of economic laws would ensure the full employment of all productive resources; and they assumed that all goods produced would find a sale in the market at the market price. The younger school of economists to-day is seeking the reasons for the breakdown of the classical system; and in particular is studying the "imperfections of the market" which appear to hamper the free working of economic laws. The practice of advertising is under acute suspicion as one of the factors that may distort the productive machine and impede the self-adjustment of supply and demand, thereby leading to waste and unemployment.

The economic aspect of advertising is not the only one about which questions are being asked. We are more keenly aware to-day than ever before of the power of propaganda, and of the sinister uses to which it can be put. The commercial advertiser wields a potent instrument of education and social influence. Has it been wisely used? Are the ideals and ambitions he sets before the public true ideals and socially desirable ambitions? Do his persuasive activities, the motive for which is private profit, give sound guidance to the consumer in the planning of his expenditure and of his life? Is the contribution he makes to the support of the press really an aid to responsible and independent journalism, or does it tend

## INTRODUCTION

to corrupt the springs of information and opinion upon which the public depends for its knowledge of affairs?

Thirdly, we are faced after the war with the physical reconstruction of many of our cities and towns, and the replanning of the countryside. Here again the problem of advertising confronts the planners, and urgent demands are heard in some quarters for greater powers to prevent or control the reappearance of advertisements, not only in the streets and by the roads, but also both on and in the air. In this sphere particularly the critics of advertising have been very vocal; the defenders have been but little heard.

The economic questions about advertising are basic; the others, though of very great importance, are secondary and consequential. If advertising is a necessary part of the economic system, then the social problems it raises are analogous to the social problems associated with coal-mining or the aggregation of large numbers of people in industrial towns. They cannot be used as arguments for abolishing advertising, any more than the obvious objections to coal-mining can be used as arguments for doing without coal. On the contrary, the recognition that certain social problems of advertising may be an inherent and inevitable part of the economic system is the first and most necessary step towards dealing with them. It is a challenge which both advertising men and society as a whole must take up. There is little hope of a solution while business men are kept on the defensive by the kind of critic who, ignoring the economic problems, seeks to argue that some of the social consequences of advertising are such as to demand its suppression or its severe limitation and control.

For the serious inquirer, then, the first thing is to try and find out what real economic uses modern commercial advertising serves. Hitherto few contributions to this subject have been made except by business men interested in the development of advertising, or by critics attacking it more upon social than upon economic grounds. It has

## THE ECONOMICS OF ADVERTISING

recently been announced, however, that an independent inquiry into the economic effects of advertising is to be made by the National Institute of Economic and Social Research; and that the project was initiated by the Advertising Association, which will give every possible assistance in opening up the necessary sources of information. Thus for the first time business men and economists are joining forces in an effort to collect and sift the evidence. The facts which this inquiry will reveal should be of great help to the economists in fitting together some of the pieces of their theoretical puzzle. On the other hand, business men engaged in advertising may miss the true import of the inquiry unless they are in a position to understand some of the new ideas the economists are trying to work out, and the nature of the questions to which these new ideas have given rise.

This is the main reason for the present book. As a member of the Council of the Advertising Association, I have been very closely concerned with the plans for the inquiry since it was first projected many months ago. In attempting to see where the inquiry might lead, and to prepare myself for some part in it, I have read a great deal and searched my own mind for such crumbs of knowledge and wisdom as twenty-five years' practical experience of advertising might have imparted. The result was a great mass of notes, which gradually formed themselves into subject-headings and chapters. For what they may be worth, they are now offered to the public, and especially to my colleagues in the business of advertising, whose interest in the newly launched inquiry has been made manifest in many ways.

This book, then, may be regarded incidentally as a personal and unofficial introduction to a study of advertising such as the Institute is undertaking. It is published with the knowledge both of the Institute and of the Advertising Association; but I must make it quite clear that neither has any responsibility whatever for the views I have expressed. Nor can it be regarded in

## INTRODUCTION

any sense as a forecast either of the course the inquiry may take, or of the conclusions that may be reached. For these neither I nor anyone else connected with the advertising business will have any responsibility.

I am aware that many advertising men are impatient of the kind of criticism they have had to meet in the past, and suspicious of its motives. They will point out that critics have always existed, and yet that advertising has grown by leaps and bounds. In that growth, they may argue, lies sufficient proof that advertising serves a public need, and sufficient refutation of academic criticism.

To this argument several replies might be offered. In the first place, it is agreed that not all advertising serves an equally useful purpose or is desirable in itself. But how can the limits of what is good and desirable be determined if we are not prepared to examine the economic grounds upon which alone, if at all, advertising can be justified? Secondly, times have changed very much since the years between the two wars when advertising attained its greatest development. A new social conscience is growing up which is less impressed by the wealth which private enterprise has conferred on this country than by the miseries of unemployment and the paradox of "poverty in the midst of plenty" which were the symptoms of the partial breakdown of the pre-war economic system. Every feature of that system is now under critical examination in the effort to find the causes of the trouble, and a particularly suspicious eye is turned upon the so-called "wastes" of competitive advertising. To many eager spirits the war seems to provide the opportunity for a new deal. Great changes are in any case inevitable. We cannot take up the old life just where we laid it down in 1939. New credentials will be asked of all who claim a place in the new world after the war. Advertising men cannot afford to rest their case upon the pre-war arguments. They must re-examine their standing in relation to the new economic and social problems which will face the post-war world.

## THE ECONOMICS OF ADVERTISING

A third argument, and the best, is that very many of the younger men and women engaged in advertising will not be content to ignore the criticisms of their craft. It will not be enough for them to seek money and a career in advertising; they will want to be assured that the work they are doing is of real social value. They will have a right to complain if the older generation merely stands upon the old ways and makes no effort to give them leadership and guidance.

It is particularly to these younger men and women that I venture to address this book. It is an attempt to state and explain the questions about advertising which seem to me to require answers to-day. I do not pretend to know all the answers, and in fact final answers on many important points are probably impossible with the information now available. That is where such an inquiry as the National Institute of Economic Research is undertaking should be of value. It may be expected to throw light in many dark places, and to provide material for reasoned judgments on matters which are at present at the mercy of guess-work and prejudice. That is all any inquiry can hope to do. The report to be presented will not settle all controversies or remove the need for individual study and thought; for, as we shall see, the views people hold about advertising depend very much, in the last resort, upon their attitude to some of the wider economic and social problems of the day.

In the original plan of this book I had proposed to include a number of chapters dealing with the various ethical and social problems raised by the practice of commercial advertising, as well as certain issues connected with the organisation and control of the advertising business. It has seemed better, however, to postpone the discussion of these matters, partly because their inclusion here would, as it has proved, require a much bulkier volume than I had intended, and also because the extreme pressure of business and other war-time duties makes it very difficult to fix any term for the completion of my full

## INTRODUCTION

design. But should this volume be found useful by those for whom it is intended, my hope is to follow it with another in which the wider questions about advertising will be considered.

This book then, as finally completed, is in two parts, of which the first is descriptive. Chapter One is devoted to a brief outline of advertising as we knew it before the war, of the reasons for its growth and the influence it had come to exercise upon the production, distribution and consumption of goods. Chapter Two reviews the means of advertising, with special reference to its part in providing the economic basis for the freedom of the press. In Chapter Three I have attempted an estimate of the total expenditure on advertising in the last pre-war year, and this is followed in Chapter Four by a brief description of the organisation of the business which handled this huge output. Chapter Five gives an analysis of the expenditure on advertising into its constituent parts. In the picture thus presented certain main features stand out, and act as guides to the economic questions which demand consideration.

These economic questions are the subject of Part II. A preliminary survey in Chapter Six leads on to a more detailed review of the case for advertising in Chapter Seven, and of the arguments of the critics in Chapter Eight. The issues thus defined are further discussed in the next two chapters, in which among other important matters, I attempt to indicate the questions about advertising arising from modern economic theory, and its connexion with the problem of unemployment. Finally, I have ventured in the concluding chapter to give some account of my own personal approach to the subject, and of my own views about the "key" questions which seemed to emerge from the preceding analysis. But these views are not offered in any dogmatic spirit, and I have tried also to indicate some of the main points to which further inquiry about the economic effects of advertising needs to be directed.

## THE ECONOMICS OF ADVERTISING

Advertising has become a great industry, giving employment to thousands of workers of many kinds and disposing of an annual output of many millions of pounds. It has become so closely interwoven with the production, distribution and consumption of goods that it affects almost every business man and literally every consumer. It provides the main source of revenue by which the freedom of the press is sustained. It pays rents to property-owners and rates to local authorities. It subsidises every form of public transport and many other branches of industry. It has a great but undefined influence on the education and the outlook of the less reflective sections of the community, and perhaps particularly on the young. Certainly, at a time when the broad lines of reconstruction after the war are being traced, it is right that a searching study of this potent instrument for good or ill should be undertaken. No one connected with advertising, as it seems to me, can rightly resist such an inquiry, or do other than welcome it and help it forward by every means in his power. This book will have served its purpose if it helps to clarify thought and focus attention upon some of the questions which confront the investigator, the answers to which will inevitably affect the future of advertising after the war.

## PART ONE : DESCRIPTIVE

### Chapter One

#### THE FUNCTIONS OF ADVERTISING

##### I. INFORMATION AND PERSUASION.

It would be normal and proper in a book of this kind to begin with a definition of the subject-matter. I propose to evade that task. The connotations of the term "advertising" are sufficiently familiar to exclude any danger of misunderstanding, while the effort to find a definition at once adequately comprehensive and restrictive would occupy a page or more with an academic discussion quite unnecessary for my purpose. What is here meant by advertising is what the reader of newspapers and magazines, the traveller by bus or tube, the receiver of unsolicited circulars, the cinema-goer, the consumer, understands by it. The fact is that advertising is easier to describe than to define, and the aspects of modern advertising which give rise to serious questioning, and with which this book is concerned, will quickly become apparent as we proceed.<sup>1</sup>

Modern advertising is almost infinite in its variety. The notices of Births, Marriages and Deaths on the front page of *The Times* are advertisements; so is the announcement of a house to let, whether it appears in the classified

<sup>1</sup> Readers who feel the need for greater precision may like to consider the following definition, which is taken from Borden, *The Economic Effects of Advertising*, a book which will be referred to later on :

"Advertising includes those activities by which visual or oral messages are addressed to the public for the purpose of informing them and influencing them either to buy merchandise or to act or be inclined favourably toward ideas, institutions, or persons featured. As contrasted with publicity and other forms of propaganda, advertising messages are identified with the advertiser either by signature or by oral statement. In further contrast to publicity, advertising is a commercial transaction involving pay to publishers or broadcasters and others whose media are employed."

The definition is not entirely comprehensive, and the distinction between advertising and publicity is probably more familiar to American than to British readers.



columns of a newspaper or on an agent's board planted in the front garden. These and a hundred similar examples represent advertising in its primary purpose of giving public information. Nobody questions either the propriety or the utility of advertising of this kind, unless indeed the information given is false or misleading, or the manner of giving it is so obtrusive or ugly as to cause offence. Then it may lead to questions of an ethical or social kind. But in general all the vast daily mass of advertising which can be regarded as strictly informative in character may be regarded as not only unobjectionable but plainly useful and necessary.

It is apparent, however, that a very large proportion of modern advertising is by no means limited to the purpose of giving useful information to the public. Its primary object is not to inform but to persuade. Sometimes the informative and persuasive functions of an advertisement are so closely linked that it is difficult to separate them. A publisher's catalogue, or a list of steamship sailings, may be regarded as primarily informative. But the question will be one of degree. If, for example, the publisher takes a large space in one of the Sunday papers, decks it out attractively and quotes extracts from the more favourable reviews of his books; or if the steamship company adds to the bare notice of a forthcoming sailing some enticing descriptions of the places to be visited; then it is fairly safe to assume that the main purpose is not to inform the public, but *to persuade them to take some action which will be of benefit to the advertiser*; to buy the book or to register for the cruise *in preference to spending their money in some other way*.

Now this is the kind of advertising that gives rise to the main questions dealt with in this book. Advertising which is purely informative in its object can be ignored for our purpose. Very little observation or reflection is needed to show that it is a small proportion of the whole. Yet it is important to notice the distinction between the informative and the persuasive functions of advertising, since some writers have sought to use this distinction as a basis for

their separation of the sheep from the goats. In a later chapter <sup>1</sup> reasons will be given for the view that not much real value can be attached to the distinction. Nearly all modern advertising is persuasive in intention. Some advertisements mingle much information with their persuasive appeal, some little, and some none at all. But for our purpose advertising may be regarded as a vast apparatus of persuasion, by which the eyes and ears of the public are constantly assailed with cunning inducement to do this, or to buy that, or to think favourably of the other. It cannot be rightly justified or condemned by its *incidental* effects, though some of these, to be considered in their place, are of very great importance. The information given by advertisements is generally only incidental to their main purpose, which is persuasion. Is this vast business of persuasion really necessary? Does it serve a useful social purpose? These are the main questions to be answered in judging modern advertising.

How vast and all-pervasive the business of persuasion has become is plain to the most careless eye. There is no escape from it. A man may contrive to evade nearly all knowledge of what is going on in the world around him; he may deny himself a wireless set; refuse to read a newspaper; and avoid the conversation of his friends; but he cannot get away from the influence of advertising. If a town-dweller, he will see advertisements everywhere, on hoardings and in shop-windows. If he flies to the country, advertisements will travel with him in the railway carriage and the bus; they will flash past him at every wayside station; creep into the pocket where he puts his ticket; confront him as he consults the menu in the dining-car. Journey's end may bring some relief, but it can hardly be complete. The Post Office reaches out into the remotest hamlet, and its faithful servants in the country will tramp or cycle miles to drop a "printed paper" missive through the most forbidding letter-box. Country vans and carts will pass the door, their sides bright with advertisements.

<sup>1</sup> See Chapter Six, *post*, p. 109.

## THE ECONOMICS OF ADVERTISING

The local auctioneer may stick a sale placard on the sign-post at the cross-roads. The calendar on the wall, the sack containing the flour, the seed packet, the grocer's receipt, the little book of stamps brought back from the village, the beer-bottle, the boot-polish tin, the soap, the tooth-paste and the shaving-stick are all in one way or another pressed into the service of advertisement.

No doubt this inescapable and all-pervading quality of modern advertising accounts for the severity of some of its critics. Like the anti-noise campaigners, they invite us to contemplate a past which was blessedly free, so they would have us believe, from these modern trials. But was it ever really so? If metalled streets and rubber-tyred motor-cars are noisy, what of the old cobbles, the iron-shod horses and clattering carts of London a century or more ago? If London and other great cities to-day seem raucous with advertisements, what of that older London? It was certainly no place of cloistered, uncommercial peace. It was alive and boisterous with the signs of trade. There were advertisements on hoardings and walls and in the omnibuses. We read that the pavements, bridges and dead walls of the City were scrawled with advertisements done in ink or in paint; the passer-by would have advertisements thrust into his hand by "bill distributors" who abounded on the pavements; the streets themselves were obstructed by advertising vehicles of every shape and size which impeded the flow of traffic. Rows of patient, plodding "board-men" (named "sandwich-men" by Charles Dickens) threaded their way through the crowds. The "fly pasters" were everywhere, and respected neither private property nor the displays of rival artists.<sup>1</sup>

The newspapers and magazines of the period reveal the same evidence of abounding commercial activity and fierce, unregulated competition. A single issue of *The Times* in 1845 contained 44 columns of railway announcements, home and foreign. New inventions, small as well as great, were announced to the public in lively panegyric.

<sup>1</sup> *A Newspaper History*, The Times Publishing Co. Ltd., 1935.

## THE FUNCTIONS OF ADVERTISING

It was in the advertisement columns of *The Times*, at a somewhat earlier date, that men were first invited to try a humble but now indispensable article of male attire, the "new invented gallowses or breeches suspensors, for keeping up the breeches without girding them tight round the waist, but, on the contrary, keep them well up and loose".

Of course, advertising was no new thing, even a hundred years ago. Nearly a century before that, Dr. Johnson had ventured the opinion that "the trade of advertising is now so near perfection that it is not easy to propose any improvement". Earlier still, in 1710, advertising was already so prominent as to merit an essay in *The Tatler* by Dr. Addison himself. But a great growth came with the industrial revolution and the period of trade expansion which followed it, and the connexion between the two series of events merits study. It helps to explain how and why the business of persuasion had become so closely interwoven with the production, distribution and consumption of goods in our pre-war economy.

### II. ADVERTISING AND PRODUCTION.

Many critics have drawn attention to the increasing disproportion between costs of distribution and costs of production in modern business enterprise.<sup>1</sup> Whether or not advertising contributes to the high relative costs of distribution, it is not the fundamental cause, which is to be found in the inevitable separation of the producer from the consumer resulting from modern large-scale, highly specialised production.

Before the industrial revolution in the latter part of the eighteenth century, persuasive advertising on a large scale would have had no purpose, and the cost of distributing the ordinary necessities of life was negligible. The producer and the consumer lived side by side. Most articles were made to order and the producer had an assured though entirely local and limited market. It is not without significance that the first important change in the old

<sup>1</sup> See, for example, Mr. Samuel Courtauld in *The Economic Journal*, April, 1942.

system of domestic industry came on the side of marketing, not of production.<sup>1</sup> The immunity of England from foreign invasion during the eighteenth century led to a steady increase in prosperity and to a growth of capital which was first exploited by entrepreneurs to expand the market for the products of domestic industries. At first these "undertakers" sought out possible producers in their own homes, gave them orders to make the goods required, and themselves concentrated upon marketing the articles so produced over an ever wider and wider area. It was only by gradual stages that the undertaker became first the employer of the domestic producer, and then the organiser of production in a factory under his own control. Once he had become a manufacturer he tended to devote himself to the problems of factory production and to leave the marketing of his goods to others. The enormous concentration upon production throughout the nineteenth century made the manufacturer the aristocrat of the industrial world. Problems of marketing sank for a long time to a lower order of interest and importance. The manufacturer and the economist alike neglected them. But a time came when the problems of marketing forced their way back into the forefront and would no longer be ignored. The enterprise and initiative first developed in the marketing field, then absorbed in the problems of production, had to turn again to marketing in order to find an adequate outlet for the products of the factories.

In the early days of factory production there was a ready sale for all the goods the factories could produce. The modern system of distribution arose and relieved the manufacturer of all anxiety about the disposal of his products. Wholesalers were eager to buy, and passed the goods on to the retailers who sold them to the public. But as factory production grew, as wealth and investment increased, as new inventions multiplied and gave rise to the production of an ever increasing volume and variety of goods, the scales gradually shifted against the manu-

<sup>1</sup> See Marshall, *Industry and Trade*, Book I, Chapter 3.

## THE FUNCTIONS OF ADVERTISING

facturer. He found himself faced with a whole new set of problems. He had invested his capital and his skill in factory plant that had enormously reduced the cost of production and enabled him to sell his goods to the wholesaler at an incredibly low price. But the benefits of factory production were dependent upon a swift and assured outlet for the product of the machines, an outlet sufficient in scale to keep the machines working all the time. And as production increased all round, the outlet for each individual producer became less and less assured. The problem of over-production, or, as we have now learnt to call it, under-consumption, began to make its appearance.

It is the existence of this problem, as Marshall has shown,<sup>1</sup> that explains the increasing energy with which sellers push their goods on the notice of buyers. In particular, the rise of modern advertising is explained by the need of the manufacturer to assure himself of a steady and a profitable market in competition with an ever increasing variety of other mass-produced articles offered to the public. In advertising the manufacturer discovered a technique which enabled him to regain control of his market by appealing directly to the ultimate consumer, and thus compelling wholesaler and retailer to stock his goods.

He found advertising a flexible and adaptable tool which in skilled and experienced hands could be used to solve many of his problems. It could be used not only to stimulate but also to regulate demand, thus smoothing out seasonal or other irregularities and enabling him to organise production more efficiently. It could be used also to protect him against competition by building up a goodwill for his product that gave him, in a world of competitors, some of the advantages of a monopoly.

But to achieve these ends certain conditions had to be complied with. The article advertised had to be *different* from others which might compete with it. It had to be easily recognisable by the unskilled buyer; and to be made

<sup>1</sup> *Industry and Trade*, Book II, Chapter 6.

up in a convenient standard size, of a standard quality and weight.

Thus the practice of advertising, begun as a means of ensuring an outlet for production, speedily reacted upon production itself. This reaction of selling policy upon production is, as we shall see in a later chapter, one of the factors that complicates economic analysis, and makes it very difficult for the economist to fit advertising into his value theory. For the present it is enough to insist upon the fact of experience that goods which are advertised are *not the same goods* as would be produced without advertising. In many cases there may have been radical changes in quality or mode of production known only to the manufacturer himself. But in almost all cases there are some changes plain for all the world to see. Goods hitherto sold in bulk have been made "different"; they are made up in standard packages, and made easily recognisable by the use of a trade-mark or a brand.

There are some familiar products which are not susceptible to this kind of differentiation, and it is significant that goods of this kind are rarely advertised by individual producers. But, in the effort to secure the benefit of advertising, an enormous range of articles formerly sold in bulk has been subjected to this process. Cigarettes, porage oats, bread, fruit, soap-flakes, shirts, handkerchiefs, salt, drugs, syrup, soap, boot-polish, tooth-paste, cornflour, disinfectants, are but a few examples of the thousand and one household articles which bear witness to the effort of the manufacturer to secure a market for the output of his machines by the use of advertising.

### III. ADVERTISING AND DISTRIBUTION.

The organisation of the distributive side of industry has been greatly affected by the growth of manufacturers' advertising. Some of the results, as they affect the retailer, are to be seen in any chemist's, grocer's or tobacconist's shop. The main function of the retailer in these and many other trades is no longer to act as an expert intermediary

## THE FUNCTIONS OF ADVERTISING

between the producer and the customer, but as the distributor of articles asked for by name, ready packed and labelled, at a price fixed by the producer and known to the consumer in advance of his purchase. Some of the consequences of this development from the consumer's point of view will be considered in the next section. Here it is necessary to notice the changes wrought by advertising in the relations between the "trinity of trade"—producer, wholesaler and retailer.

These changes have in the main tended towards the elimination or squeezing of the middleman—the wholesaler—his functions being taken over more and more by the manufacturer himself and in some cases by the retailer.

As we have already seen, the policy of advertising is part of an attempt by the producer to secure effective control of his ultimate market. In pursuit of that policy he has found himself compelled step by step to undertake many tasks formerly performed by the merchant. Thus, instead of delivering the goods in bulk, to be sorted, graded and packed by the wholesaler, the manufacturer now very often makes up the goods himself ready for delivery to the consumer. This process has been carried so far that many great manufacturing firms themselves make and print the cartons for their goods and the literature to be enclosed with them. Visitors to factories such as those of Cadbury's at Bournville or of Lever Bros. at Port Sunlight cannot fail to be impressed by the attention devoted to a wide variety of ancillary activities which formerly would have been left to the distributive trades, and especially to the wholesaler.<sup>1</sup>

For the same reason the manufacturer tends more and more to seek direct contact with the retailers who sell his goods to the public. An advertising campaign addressed to the consumer is almost always accompanied by a special campaign addressed to the retail trade, the object being to enlist the co-operation of the retailer by convincing him

<sup>1</sup> For a full account of recent changes and trends in the relations between producer, wholesaler and retailer see *The Distribution of Consumable Goods*, by Braithwaite and Dobbs (Routledge, 1932).



## THE ECONOMICS OF ADVERTISING

of the advantages of stocking the advertised goods and of pushing the sale of them. For this purpose the manufacturer maintains his own sales staff, and frequently prepares and supplies window displays and "dealer aids" of many kinds for the use of the retailer.

There is an increasing tendency in many industries in which advertising is extensively used for the goods to be supplied direct to the retailer, the wholesaler being thus eliminated altogether. This is not practicable in all cases; there are still many trades in which, perhaps because of the number of small retailers, or the special character of the product, the wholesaler is able to hold his own. There are others in which it has become the practice for big producers to deal with the larger retailers direct, but to leave the smaller ones to be supplied by the wholesaler. This is the case, for example, in the cigarette and confectionery trades.

Advertising has in some cases led manufacturers to try to dispense with the retailer as well as the wholesaler, and to sell their goods to the public without any intermediary at all. Expensive articles like vacuum-cleaners and encyclopaedias are carried from door to door by the manufacturer's own salesmen. Or the manufacturer establishes his own chain of retail shops, as has been done, for example, in the confectionery, boot and shoe, fountain-pen and drug trades. Mail order business was also extending widely before the war. In all these cases the practice of advertising to the consumer is the foundation of the method of business employed. Advertising makes the manufacturer's name and products familiar to the public, creates the demand and establishes the confidence that enable him to dispense with the services of the middleman. Thus in some cases the wheel has gone full circle. Advertising is used to bring about, under conditions of mass production, a reversion to the system familiar and normal in the days of domestic industry.

The motor industry is an interesting case because it has grown up entirely since the development of modern adver-

## THE FUNCTIONS OF ADVERTISING

tising technique and has availed itself largely of the opportunities created by advertising for stimulating demand, simplifying distribution, and securing the economies of mass production! There is no wholesaler in the motor trade. His functions are discharged partly by the manufacturers, who in some cases maintain their own depots for sale direct to the public, and in other cases operate through dealers who are virtually tied agents; and partly by the big retailers, who are themselves large advertisers, and who attract the public by their ability to show a wide range of models and to give expert advice and service.<sup>1</sup>

The tendency in so many trades to squeeze out the wholesaler comes sometimes from the retailer's side. Advertising by retailers, though small in total volume compared with the advertising of manufacturers, is yet on a scale large enough to offer some effective resistance to the effort of manufacturers to dominate the market. In the motor trade, as we have just seen, independent retailers are able to maintain their position alongside the tied agencies and sales depots of the manufacturers. The big retail department and chain stores are in a somewhat similar position. They rely upon their skill and weight in buying, and on their ability to offer the consumer a wide range of choice and a guarantee of quality and value which is based on the reputation of the store rather than on that of the manufacturer. The advertising of the retail store is therefore designed to attract people into the store and to build up goodwill which is quite independent of that attached to any brands and trade-marks. Retail advertising therefore usually offers selected articles at attractive prices, and often also emphasises features of service, such as easy credit or delivery arrangements. Though manufacturers' adver-

<sup>1</sup> The inclination of manufacturers to seek distribution either through their own chains of shops or through sole agents appears to be strongest in the case of goods which require some service to the customer beyond the bare sale. Obvious examples are motor-cars, wireless sets and watches, which require maintenance service, and boots and shoes, which require fitting. In these and similar cases all the effects of care in manufacture and skill in advertising might be thrown away by inefficient service; thus the manufacturer aims at keeping the whole process under his own control.

tising is sufficiently powerful to ensure that all ordinary ranges of branded goods will be on sale in the store, they are hardly ever featured in the store advertisements. It is therefore true to say that advertising by retailers represents generally a movement in the opposite direction to that of advertising by manufacturers, and to some extent at least it preserves price competition against the tendency towards the establishment of reputation monopolies by producers.<sup>1</sup>

### IV. ADVERTISING AND THE CONSUMER.

The ultimate object of all production, all distribution and all advertising is consumption. The consumer in this country and America is under normal conditions more flattered, more sought after, more pampered than in any other period in history. It is suggested by some critics that the flattery is only to deceive; that under a subtle appearance of seeking to find out and to gratify the consumer's lightest wish, the producer is in fact using the power of advertising to control and dictate demand, and to compel the unsuspecting victim to spend his money in the way that suits the producer. Be that as it may, there can be no doubt at all that modern advertising has very largely determined the buying habits of the public, and that without it the ordinary shopper, whether male or female, would have a very serious problem of readjustment to face.

Advertising has in the first place contributed very largely to that "imperiousness of demand" which is a characteristic of our day. The simple needs of an earlier age have been replaced by an immense variety of wants deliberately aroused and stimulated in order to provide adequate outlets for the abounding productive capacity of modern industry. The consumer has been taught not only to feel new wants, but to expect them to be satisfied with the least possible effort and inconvenience to himself. And for nearly every want he is offered a variety of alternative satisfactions, among which he can choose at his leisure.

<sup>1</sup> Braithwaite and Dobbs, *op. cit.*, p. 110.

## THE FUNCTIONS OF ADVERTISING

Shopping is largely reduced to the mere process of asking for an article by name.

The late Sir Charles Higham illustrated in a lively manner the convenience of this new method both to shop-keeper and customer. He pictured two modes of purchasing cocoa in a grocer's shop, as follows:<sup>1</sup>

- (1) "I want some cocoa."  
"Yes, Madam. How much?"  
"Oh, I should think a quarter of a pound; no, perhaps half a pound."  
"Thank you, Madam." (He begins weighing the cocoa and packing it up.)  
"Is that good cocoa?"  
"Very good, Madam."  
"It's the best, I hope."  
"Well, I've never heard any complaints."  
"I suppose even cocoas vary."  
"Yes, they do very much."  
"I thought the last lot I had was very tasteless."  
"I'm sorry to hear that. I think you'll find this better."  
"I hope so. How much?"  
"One shilling and three halfpence."  
"Have you change for two shillings?"  
"Thank you, Madam."  
"Good-day."  
"Good-day, Madam."
- (2) "Quarter pound tin of Cadbury's, please." (Customer puts the money on the counter. Salesman reaches out for the familiar tin and hands it over.)

The *Encyclopaedia Britannica* offers a psychological explanation of the preference most people undoubtedly feel for this kind of shopping. It says:

"The average man or woman who goes into a shop to buy soap is more or less affected by a vague sense of antagonism

<sup>1</sup> *Advertising*, Williams & Norgate, 1925.

## THE ECONOMICS OF ADVERTISING

towards the seller. There is a rudimentary feeling that even the most ordinary transaction of purchase brings into contact two minds actuated by diametrically opposed interests. The purchaser, who is not asking for a soap he has used before, has some hazy suspicion that the shopkeeper will try to sell, not the article best worth the price, but the article which leaves the largest margin of profit; and the purchaser imagines that he in some measure secures himself against a bad bargain when he exercises his authority by asking for some specific brand or make of the commodity he seeks. If he has seen any one soap so persistently advertised that his memory retains its name, he will ask for it, not because he has any reason to believe it to be better or cheaper than others, but simply because he baffles the shopkeeper, and assumes an authoritative attitude by exerting his own freedom of choice.”<sup>1</sup>

It is certain that during the present century there has been a vast change in the normal relations between retailer and customer, and that this change has been due mainly to the influence of modern advertising. The existence at fixed prices of a variety of branded and advertised articles, so standardised that their character and quality can be relied upon, and that they can be asked for by name, is felt as an immense boon by most busy shoppers. The old-fashioned system, involving inquiry, inspection, haggling and delay, still persists in a sufficient number of trades for comparison to be easy. Moreover, this wide choice among branded articles undoubtedly gives the consumer the feeling that he or she is exercising a freedom of choice that would have been impossible under the old system; and that his or her decisions, as expressed in the act of choice, really do determine in the long run the kind of goods that are offered for consumption.

The war has brought about a sharp reversal of the prevailing trend. Hundreds of familiar branded articles have disappeared from the market. Their place has been taken in many instances by “utility” goods, which are generally

<sup>1</sup> 11th Edition, Article “Advertising”. Other illustrations of the hostility existing between customer and retailer in the days before advertising had made possible the development of a new kind of retailing are given by Mr. John Gloag in his recent Penguin Book *What About Business?*

## THE FUNCTIONS OF ADVERTISING

of sound quality, and which are guaranteed, not by a manufacturer's or a retailer's reputation, but by Government supervision. The conditions of war, which mean scarcity in all branches of the consumer market, are so fundamentally different from those of peace, that it seems risky to attempt any comparison between them. However, proposals have been put forward for the post-war reconstruction of our economic system in which peace-time production and consumption would be expressly based upon the analogy of war-time conditions.<sup>1</sup> As one recent writer says, "we need to retain the elements of health that have been forced upon us,"<sup>2</sup> and among these elements of health he includes the disappearance of the freedom of choice which the consumer enjoyed before the war, and its replacement by a system of planned production and consumption under which goods would be standardised. The basic ideas on which proposals for a planned economy rest are not themselves the product of war-time experience. They derive from the writings of theoretical economists who have studied the conditions of "imperfect" or "monopolistic" competition which they found to be the main characteristic of our economic system before the war. We shall have to give more attention to these theories, which have received a great impetus from the war and the actual experience of a planned economy, later on.<sup>3</sup> They are referred to here only to emphasise, by way of the contrast

<sup>1</sup> In this book I am not concerned with the very special economic problems of war-time, nor with those of the difficult and probably lengthy period of readjustment which must follow. Planning is as necessary for the transition from war to peace as for that from peace to war, and it is universally agreed that the economic controls established in war-time must remain so long as the conditions continue which called them into being. The discussion here, and in later chapters of this book in which economic planning is considered, is concerned with the kind of system we should aim at establishing, or re-establishing, when conditions once again permit of productive resources being devoted primarily to the needs of consumption.

Perhaps a further word of explanation is needed as to my use of the word "planning". Every attempt to solve a problem involves a plan, and in this sense we are all "planners". But a "planned economy" has come to be understood in a special sense as the antithesis of a free-enterprise economy, and while there are many degrees among the advocates of the former, all have this in common, that they desire to see, as a permanent feature of our post-war economy, some measure of Government control over the production and distribution of consumption goods.

<sup>2</sup> Denys Thompson, *Voices of Civilisation*, Frederick Muller Ltd., 1943.

<sup>3</sup> See Part II, especially Chapters Nine and Ten.

which such a system would provide, the immense if little realised part which advertising had come to play before the war in the daily life of the consumer.

From this point of view, the principal effect of the change would be the permanent restriction of the consumer's choice, and of his power to determine by his decisions the kinds of goods to be produced. The "directors of the good society", we are told,<sup>1</sup> would not assume that the ordinary man is qualified to assess the claims of competing products and capable of choosing between the possibilities put before him. These matters would be taken out of his hands and entrusted to a central planning board which would decide what ought to be made available for consumption, and would direct production accordingly.

Let us consider for a moment the old system which this new plan is designed to replace. Under that old system private individuals sought to make profits for themselves by discovering ways of making things or providing services that you and I could be induced to want and to pay for. There is no question of the tremendous results that have flowed out of this encouragement of enterprise for profit and at private risk. There have been some bad results for the community as well as many good ones. But the only result with which we are concerned at the moment is the position it has given to the consumer. Without effort or argument on his own part the consumer has found himself enthroned as the uncrowned king to whom all pay homage. This applies to the individual consumer in his personal capacity, not to consumers in the mass as represented by a central planning authority. The technique of advertising has placed the producer in immediate and direct touch with the consumer as never before since the days of domestic industry. It has rendered the producer more sensitive to, and more dependent upon, the moods and fancies of the consumer than ever before. It enables the man with a new idea to address himself at once to the ultimate court of appeal—the public; and to put his own

<sup>1</sup> Denys Thompson, *op. cit.*, p. 166.

## THE FUNCTIONS OF ADVERTISING

faith to the test without submitting to the judgment of any intermediary, whether wholesale merchant or production board. It compels the old-established producer to keep his ear constantly to the ground for signs of public dissatisfaction, and to react instantly to any change in public taste.

Whether on balance this constant solicitude, this constant attempt to judge and anticipate the desires and needs of the consumer, is a good or a bad thing is one of the questions about which moralists and economists debate. Advertising is not solely responsible for it, but the development of modern advertising has enormously stimulated it. The substitution for private enterprise of a system of planned production and consumption would not abolish the need for advertising; but the character of most advertising would be changed. It would be directed, not to meeting and satisfying the consumer's lightest wish, but to making him want and accept the things which benevolent authority had prescribed for him. In the words of a severe critic of modern advertising,<sup>1</sup> its task under a planned system would be that of "beating refractory humanity into the required shape".

Perhaps that is what refractory humanity really needs; but in this chapter we are concerned only to describe the functions of advertising as we have known it hitherto. It can hardly be questioned that one of its main results has been to elevate the consumer to a commanding position in which he has been able to exercise a freedom of choice among a variety of goods and services for which no parallel can be found in any earlier age, nor in any community where advertising has failed to develop on a comparable scale.

### V. SUMMARY.

We may sum up the argument of this chapter in the following way:

The growth of capital and the period of invention which

<sup>1</sup> A. S. J. Baster, *Advertising Reconsidered*, P. S. King & Son Ltd., 1935.



set in towards the close of the eighteenth century put it within the power of man to attain a level of wealth and a standard of living never before experienced in human history. The creation and development of the new resources of production were the work of private individuals acting under the stimulus of the profit motive. How well they succeeded is sufficiently shown by the marvellous change in the material conditions of life for the ordinary man and woman during the past century and a half.

But experience has shown that the benefits of new invention and increased production can only be fully enjoyed by the community if demand keeps pace with supply; and further, that in a period of rapid development demand will only keep pace with supply if men and women are constantly stimulated to feel the want of the things which increased productive capacity makes available. It has been the main function of modern advertising to apply that constant stimulus to demand.

In a free competitive economy not only production but also the means of stimulating demand are in private hands. From this certain consequences inevitably flow. The individual producer is concerned, not to adjust *general* demand to *general* supply, but to secure an adequate demand for his own particular product. Hence most modern advertising is competitive in character and has the effect of splitting up the supply of each kind of familiar product into a number of differentiated "brands". Each manufacturer strives to make his own product "different"; to create a special reputation for it, and to induce the consumer to buy more of it, without regard to whether by such strenuous persuasion he is or is not helping the consumer to make a wise and balanced distribution of his total expenditure. The individual manufacturer knows nothing of that, and can know nothing of it. It is left to the consumer to make his own free choice for good or ill among the immense variety of goods spread out to catch his eye and pressed upon his attention.

## THE FUNCTIONS OF ADVERTISING

Now this system, and perhaps especially this use of the power of advertising in the service of private profit, raises many questions which it is the purpose of this book to examine. At the very outset we have seen that there are contemporary writers who think the whole system should be radically changed. They think that decisions as to what should be produced ought not to be left to private enterprise, actuated largely by the profit motive. They think that the individual consumer should not have complete freedom to choose how he will spend his money, and thereby to determine in the long run what goods shall be produced. They hold that consumption should be planned on a scheme designed to secure the greatest benefit for society as a whole; and that orders for production should be issued on this basis.

Complete freedom of enterprise on the one hand, and a completely planned economy on the other, represent the opposite poles of opinion. There are, of course, many intermediate positions. Advertising will be required in any case, for the fundamental fact is that productive capacity is nowadays so vast that to keep it fully employed will, under any system, require the constant stimulus to demand which it is the function of advertising to apply. For advertising the question of to-day is not "to be or not to be", but rather "under which king". Is it to serve private enterprise and the free fancies of the consumer as hitherto? Or is it to become "propaganda", to be used in the hand of elected authority to bend producer and consumer alike to the compulsory service of the common good, as seen by authority?

Before turning to the many questions inherent in this major issue, we must complete our descriptive outline of modern advertising by a brief review of the means of advertising and of the organisation of the advertising business, and an analysis of its actual output in the years immediately before the war.

## Chapter Two

### THE MEANS OF ADVERTISING

#### I. THE PRESS.

Consideration of the means used by advertisers to bring their persuasive powers to bear upon the public leads at once to what is probably the most important of all the incidental effects of advertising. For everyone knows that the press is the greatest medium for advertising; and nearly everyone is aware that one of the undesigned and accidental consequences of the development of modern advertising was the provision of a source of revenue that enabled the press, and especially the newspaper press, to free itself from dependence on subsidies of one kind or another. It is therefore apparent that the press has a very great interest in the answer to be given to the question posed at the end of the last chapter. So has the ordinary citizen, considered now not as a consumer of goods, but in his political character as a reader of a free press. It matters very much whether the revenues the press derives from advertising come from a large number of private firms, indifferent to the policy of the paper and interested only in profits; or whether they come from a central source, very much interested in policy, and able at its discretion to bring economic pressure to bear upon the conductors of a refractory journal.

The matter is of such importance that some critics have appeared inclined to the view that commercial advertising could be justified as a support to a free press, even though its direct effects are held to be economically and socially undesirable. This is surely a confused and mistaken idea. Advertising was not invented as a means of support for the press, and is not carried on to-day with that idea. If it were, the press would not be free. Advertising goes on because in the existing economic environ-

ment it pays business men to advertise; and it pays because the great mass of consumers have been convinced that it pays them to buy advertised goods. If that belief is an illusion, sooner or later the public will become aware of it; and then the profit will disappear out of advertising; and commercial advertising will disappear out of the press, or will remain only as a form of subsidy, unacceptable because compromising to freedom. The problems involved in the relationship between advertising and the press are the most important of the problems which were described in the Introduction as secondary to, and consequential upon, the main economic questions about advertising.

The free press is a phenomenon as recent in growth as commercial advertising. The two developed together and have reacted constantly upon each other. In the eighteenth century, when Dr. Johnson erroneously supposed the trade of advertising to be near perfection, he had no such illusion about the press. His opinion of the journalists of his day was forcefully expressed :

“Of those Writers who have taken upon themselves the Task of Intelligence, some have given, and others have sold their Abilities, whether small or great, to one or other of the Parties that divide us; and without a Wish for Truth, or Thought of Decency, without care of any other Reputation than that of a stubborn Adherence to their Abettors, carry on the same Tenor of Representation through all the Vicissitudes of Right and Wrong, neither depressed by Detection, nor abashed by Confutation; proud of the hourly Encrease of Infamy, and ready to boast of all the Contumelies that Falsehood and Slander may bring upon them, as new Proofs of their Zeal and Fidelity.”<sup>1</sup>

The journalists of Dr. Johnson's time were habitually subsidised and controlled either by the Government or by politicians of the Opposition. Even when the first issue of *The Times* appeared, in 1785, this state of things was regarded as normal. The founder of *The Times* himself received an allowance from the Treasury, and this continued until the very end of the century. Apart from

<sup>1</sup> Quoted in *The History of The Times*, Vol. I, Chapter 2.

direct subsidy, Governments had other means of controlling the newspapers. They had almost a monopoly of news, and through the Post Office could exercise discrimination in giving or withholding foreign news from the papers. Official advertisements, such as those of the Victualling Office, were also a potent means of influence, used without hesitation to reward a compliant newspaper proprietor or to punish a rebellious one.

It was not until the beginning of the nineteenth century, when *The Times* came into the hands of the second John Walter, son of its founder, that the great struggle for the freedom of the press from Government control really began. The growth of commercial advertising determined the issue. It provided revenues which enabled *The Times* to lead the way in developing its own sources of news, and in breaking free from the tradition of dependence on statesmen or on departmental favours. That growth, as we have seen, was rapid in the first half of the nineteenth century. For a long time it was checked and hampered by the advertisement tax, but when the tax was at last abolished in 1853, the economic basis of the modern newspaper was already well established.

There never has been a time when newspapers could exist solely upon the revenues derived from sales. The penny newspaper of to-day, for which the publisher receives about two-thirds of a penny from the trade, costs at least 1½d. to produce and distribute.<sup>1</sup> Thus the revenue from sales accounts for only about half the cost; the gap is filled by the revenue from advertisements, which normally occupy something like 40% of the total space in each issue. Conditions, of course, may vary greatly as between different publications. Lord Beaverbrook has said that in pre-war days about half the total revenue of *The Daily Express* came from advertisements.<sup>2</sup> In the case of a great national daily of more limited circulation the proportion may be much higher.

<sup>1</sup> On the economics of the modern newspaper see the P.E.P. Report on the Press, published in 1938. It must be remembered that the figures quoted in this chapter apply to normal conditions, and not to the special conditions of war-time.

<sup>2</sup> See, for example, figures given in *The Daily Express* of January 8, 1938.

## THE MEANS OF ADVERTISING

On the other hand, some provincial newspapers, and especially class journals and magazines, may be very much less dependent upon advertising. Broadly speaking, however, it is true to say that the partnership between journalism and commercial advertising provides the universal basis on which the economy of the press in this country rests.

The debt of the newspapers, and through them of their readers, to advertising is by no means to be reckoned in purely financial terms. The founders of modern journalism sought advertisements, as their successors do to-day, for their news value as well as for their revenue. A writer of nearly a century ago says: "Newspaper advertisements are to newspaper news what autobiography is to the narrative of a man's life told by another. The paragraphs tell us about man's sayings and doings: the advertisements *are* their sayings and doings. There is a dramatic interest about the advertising columns which belongs to no other department of a newspaper."<sup>1</sup> He was speaking mainly of the "small" advertisements which made up the bulk of advertising in his day, but it is still true that much modern commercial advertising has a news value that is of great importance to the newspaper proprietor and to the reader.

Without advertisements newspapers would of necessity be greatly reduced in size, and they would find it impossible to provide space for many of the features the modern reader has come to expect. Advertising is, in fact, very largely responsible for the wide scope of the daily paper, which has long since ceased to concern itself almost exclusively with politics, and has taken all the interests of home and business and sport, clothes and food and dress, art and amusement and travel, as its province. Above all, advertising has enabled the newspapers to set up their own newsgathering organisation everywhere, at home and abroad, and this perhaps more than anything else has established their independence on a firm basis.

There is, of course, a less attractive side to the close relationship between the press and advertising. Some

<sup>1</sup> *A Newspaper History*, The Times Publishing Company Ltd., 1935.

critics allege that the press has merely exchanged one form of servitude for another. But, viewing the world at large, and many of the prevailing tendencies in our own country, it seems difficult to over-emphasise the importance of the service which commercial advertising has rendered to freedom by setting the press above the necessity of accepting subsidies from any secret source.

The world to-day provides too many examples of the disaster that may befall a nation when its press is directly controlled by the executive power and becomes merely the medium for Government propaganda. Germany is, of course, the outstanding instance. The steps by which the old free press of Germany was debauched by the Nazis in the years after they came to power make a terrible chapter in the story leading up to the war. Advertising plays only a minor part in that story; the methods used by Dr. Goebbels and his satellites had little of finesse about them. Yet economic pressure was sometimes the method applied, as appears from the fate of a Catholic paper *Der Neue Tag*, of Oberhausen, whose advertisers were threatened with a boycott unless they transferred their advertisements to the party organ.<sup>1</sup>

The case of France provides a warning of a different sort. There the press was nominally free, but too little supported by commercial advertising to escape the need for subsidies of another kind. The P.E.P. Report, published in 1938, says of the French press:

"Since they are unable to get the advertisement revenue which, whatever its disadvantages, has saved the British press from direct corruption, many newspapers, especially in Paris, are on sale to the highest bidder, and some are regularly subsidised by the French, Italian or other Governments, or by industrial and financial interests. Indeed, M. Daladier has said that four-fifths of all French newspapers live on subsidies, and M. Tardieu stated in *Guinguette* on July 10, 1936, that the French Government possessed secret funds amounting to 25,723,000 francs for influencing the press."

<sup>1</sup> Derrick Sington and Arthur Weidenfeld, *The Goebbels Experiment*, John Murray, 1942.

## THE MEANS OF ADVERTISING

It was apparently not enough; there was a higher bidder. Since the fall of France a French journalist, M. Louis Levy, has told how a large part of the French press was used, both before and during the war, by German and Italian propaganda.<sup>1</sup> He describes the influence obtained over the press as the greatest success of the German agents. In the last months before the war, he says, it was very difficult to find in the French newspapers any reports of the Hitlerite atrocities. In the weekly papers especially, which provide the intellectual nourishment of the French bourgeoisie, "the slogans of Hitler and Mussolini were reproduced without shame . . . Mussolini was treated with admiration and Hitler with sympathy . . . thus the middle-class citizen, the tradesman and the provincial *rentier*, who had shown little understanding of the Weimar Republic, were taught to look with indulgence upon a Germany which deserved sympathy since it had become fascist." Thus French morale was undermined, and the French public, for want of clear guidance and honest news, was deprived of its control over events.

Despite this terrible warning, there is a current of opinion in this country which tends to under-estimate the supreme importance of a free press; is over-conscious of the defects of freedom, and appears willing to get rid of them by methods which would, in effect, bring the press under Government control. That school of thought had its way with broadcasting in this country. The imagined horrors of advertising supplied the main argument for the establishment of a monopoly which has banned freedom of speech from the air,<sup>2</sup> and has made of the B.B.C., in the last resort, a giant engine of propaganda. There are critics of advertising who advocate measures that would have the same effect upon the press. Thus a writer in the *Oxford*

<sup>1</sup> *Vérités sur la France*, Penguin, 1941.

<sup>2</sup> This judgment may be questioned by those who have forgotten the true meaning of freedom of speech in English law. It means the right to say (or print) anything without any previous licence or censorship, subject to the consequences of law. Such a right still exists in the press. It exists in American, but not in English, broadcasting.



*Bulletin of Statistics*,<sup>1</sup> recommending the suppression of a large part of advertising in war-time, proposes other means for financing the newspapers. He suggests either a direct subsidy to the press or a subsidy on paper and ink, and thinks that if these proposals are not acceptable others could probably be put forward. But in fact no other means of securing a free press has ever yet been found, in any age or in any country, than the revenue derived from commercial advertising. In the words of the P.E.P. Report<sup>2</sup>: "In considering the restriction of advertising it must always be remembered that no Press has ever existed entirely without subsidies, and that the open advertising subsidy is at least preferable to hidden subsidies from political parties, governments, or industries, or to bribery by private interests."

The press is by far the most important medium for advertising, and this is due to the fact that it is the most naturally suited for the purpose. In every advertisement, if it is to be effective at all, there must be some news element, and for every such advertisement there is some publication in which its inclusion will appear perfectly natural, and its message be of real interest to a large number of readers.<sup>3</sup> Even if the news element in an advertisement is very weak, it gains from its association with other news, and from the fact that it has not to be forced upon the reader's attention but confronts him as one among a number of items of greater or less interest which he is engaged in scanning.

Again, the newspaper or magazine is read regularly by the same large or small group of people. Thus it permits of repetition, which is the essence of advertisement, and it also permits the building up of a case, point by point, over a lengthy period.

There are, of course, great differences between the various branches of the press, between popular and "class"

<sup>1</sup> K. W. Rothschild, "Advertising in War-Time", *Oxford Bulletin of Statistics*, June 6, 1942.

<sup>2</sup> P. 278.

<sup>3</sup> H. W. Eley, *Advertising Media*, Butterworth, 1932.

## THE MEANS OF ADVERTISING

papers, dailies and Sundays, national and provincial papers; between newspapers, magazines and trade papers or professional and technical journals of many kinds. These differences are of great importance to the advertiser, but need not concern us here. There are more than 5,000 newspapers, magazines and periodicals of different kinds published in Great Britain.<sup>1</sup> All, or nearly all, are more or less dependent for their existence upon advertising, and in their immense variety every advertiser can find a medium suited to his needs.

### II. POSTERS AND OUTDOOR ADVERTISING.

Next in importance to the press as a medium of advertising in this country is the poster. Outdoor advertising is actually far older than the press, and older than the art of printing. There is some evidence that it was practised in ancient Rome, and by even earlier civilisations. In medieval England the tradesmen's signs were a familiar form of advertising. "These jolly reminders hung outside every inn and shop, symbolised the trades, fell on the heads of passers-by, creaked all night when a gale was blowing and generally added to the gaiety of life. . . . Then coloured and printed bills began appearing in shop windows, and from these the modern poster was evolved."<sup>2</sup>

We have already seen how outdoor advertising developed in the early years of the nineteenth century. Its worst abuses were brought under control one by one, but for a very long time town and country continued to be disfigured by unsightly and objectionable advertisements. This was largely due to the activities of the "fly-poster", who went out, often under cover of night, armed with paste-pot and ladder, and stuck his bills wherever he could find a wall that seemed suited to his purpose. Fly-posting is not entirely extinct in this country even now, but it is severely frowned upon by the regular bill-posting con-

<sup>1</sup> *Newspaper Press Directory*, C. Mitchell & Co. Ltd., 1940.

<sup>2</sup> Higham, *Advertising*, Williams & Norgate, 1925.

tractors, whose business nowadays is very highly organised and well conducted.

Every town has its poster contractor.<sup>1</sup> He may himself be the owner of hoardings, or he may contract for the use of hoardings erected by builders, or for blank walls, bridges and the like. He pays rent to the owner and rates to the local authority, and he posts and maintains on the hoardings under his control the bills he receives from advertisers, advertising agents or the "service" poster contractors. These are the larger firms, who usually themselves own or control many hoardings, but whose main business is to undertake the whole conduct of a poster campaign for their clients. They are generally prepared to undertake the design of the posters, to contract for the printing, to prepare a list of towns to be "posted", advise on the choice of sites, inspect the posters throughout the period of the contract, and arrange for their replacement as may be necessary. Nearly every important poster contractor in the country is a member either of the British Poster Advertising Association or of the London Poster Advertising Association, which maintain a very firm control over the conduct of the business.

A special form of poster advertising is that conducted by the great railway companies, each of which maintains its own advertisement department or employs contractors to negotiate with advertisers for the use of the many sites on railway property. These include sites on the stations, in passage-ways, lifts and refreshment-rooms, on hoardings in the station approaches, on bridges and in the trains themselves. Bus and tram operators supplement their revenues in the same way. So do firms operating large numbers of delivery vans. As an example of the eagerness with which new means of advertising are sought, it may be recalled that shortly before the war even the London taxis were having small advertisement cards installed in them.

<sup>1</sup> On the history and the present organisation of the poster advertising business see Cyril Sheldon, *Poster Advertising*, Sheldons Ltd., 1927, and *A History of Poster Advertising*, Chapman & Hall, 1937.

## THE MEANS OF ADVERTISING

Apart from the regular poster, the means of outdoor advertising are legion, and only a few of the more important can be briefly mentioned here. Electric and neon signs before the war glittered and twinkled in every important city street. Signs designed to catch and reflect the headlights of passing cars were erected on all the main roads. Kites carried banners and streamers over football grounds and other places where large crowds were assembled in the open air. Aeroplanes traced letters in smoke against the day-time sky, and searchlights projected letters of flame on the clouds at night.

All forms of outdoor advertising have this in common, that they are designed to catch the eye of the wayfarer and to impress a message on his mind in a brief moment as he passes. They must achieve their effect instantaneously. This means that the technique of the poster is fundamentally different from that of the press advertisement. The poster is the special medium of what is called "reminder" advertising; that is to say, of advertising that aims only at impressing a slogan, or even merely a name, on the public mind. A very great deal of study has been devoted to this difficult art, and many distinguished artists have become specialists in it. The outdoor advertisement, whether poster, electric sign or sky sign, must above all things have the power of compelling attention, of arresting the eye, even if only for a moment.

It is probably this necessary quality of obtrusiveness in the poster, its power to compel the unwilling eye and to impress its message upon even the most hostile mind, that explains most of the criticisms of outdoor advertising. The critics would not object, so it seems, if advertisements could be made so to blend into their background as to cause no shock to the eye—to become, in fact, unnoticeable. This would be perfectly possible to the poster experts, many of whom in war-time, it is interesting to note, become the leading technicians in camouflage; but it is not what they are after. Thus it comes about that as with advertising in the press, so with outdoor advertising

## THE ECONOMICS OF ADVERTISING

in all its forms, there are critics who complain that the medium is degraded and vulgarised by its association with advertising. In the case of outdoor advertising the medium varies from a suburban waiting-room to the very vault of heaven itself. The charge of desecration thus raises problems of several kinds, which fall to be considered among the social questions arising from the practice of advertising.

### III. DIRECT MAIL.

The advertisement sent through the post is the exact antithesis of the poster. It is addressed directly to a single person who, it is hoped, will be sufficiently interested in the subject-matter to read it carefully and at leisure. It is true that the post has often been used to send leaflets or letters broadcast to people whose names appear to be taken at random from the telephone-book or some similar work of reference. This is a wasteful form of advertising that experienced commercial advertisers rarely employ. Charities were rather prone to it, and still are, since they have certain privileges in war-time advertising. But the unwanted postal packet that found its way straight into the wastepaper basket before the war was sent out very often by the less desirable kind of advertiser who was denied admittance to the press.

Properly used, however, direct mail advertising fills a very important place in the advertiser's scheme of things. It is very largely used by the big retail stores to send catalogues, sale notices and similar advices to their customers and potential customers. At least one department store had developed the practice before the war of having its advertisements printed in the form of a newspaper, which was circulated by post. In general, direct mail is the obvious means of advertising to a limited and known group of people. Thus the manufacturer advertises by post to retailers, and to special classes of customers such as doctors or lawyers; big corporations circularise their shareholders, banks and insurance companies their

## THE MEANS OF ADVERTISING

clients, and so on. The transmission of information of this special kind to interested parties accounts for an enormous volume of postal advertising every year.

Where the post is used as part of a general advertising campaign there is obviously great risk of waste and of annoyance if the wrong people are addressed. Firms who seek to sell their goods through the post go to great expense in building up suitable "mailing lists". These are often created in the first instance as the result of newspaper advertisements in which offers of specimen goods at reduced prices are made, and coupons included for the reader to fill in his name and address. Many agencies have also been established which specialise in the conduct of advertising by mail, and advertisers very generally employ their services. The "stock in trade" of such agencies consists largely of lists of names and addresses which have been collected and classified over many years, and which can be used in varying combinations to suit the requirements of each individual advertiser. The agencies also undertake all the routine work involved in a postal campaign—the printing or duplicating, addressing, folding and dispatch of the letters or leaflets, and often the sorting and checking of replies. Many of the larger addressing agencies also employ experts to write and design the material to be sent out.

### IV. WINDOW-DRESSING AND OTHER FORMS OF DISPLAY.

When we turn to the use made by a tradesman of his own premises to attract customers it becomes difficult to determine where advertising properly begins and ends. Marshall appears to regard as advertising almost every form of activity or enterprise designed to impress the customer. Thus "a good frontage on a leading thoroughfare; adequate space for the convenience of employees and for customers; lifts and moving staircases, etc." come within his definition of constructive advertisement.<sup>1</sup> If

<sup>1</sup> *Industry and Trade*, p. 304.

this view were accepted, a large part of the cost of many modern factory buildings and equipment, as well as that of stores and shops, would have to be charged to advertisement, and we should have to face the fact that any attempt at statistical measurement of the expenditure on advertising, such as is to be made in the next chapter, would be hopeless. It is important to notice, as an illustration of the extent to which advertising permeates our economic system, that its influence does in fact affect the design and structure of factories, shops and commercial buildings of every kind. But for the purposes of this book we confine ourselves to advertising as generally understood, and we exclude from the definition buildings, fittings or furnishings, the main functional use of which is other than the pushing of the advertiser's wares. Thus, for example, an enterprising tradesman may instal an escalator in his shop, and one of his motives for doing so may be the belief that it will be a good advertisement. He thinks that people will talk about it. He also thinks that long after people have ceased to talk about it it will remain as one of the amenities that will cause them to think well of his shop. This illustrates the truth that advertising enters, in one way or another, into almost all business plans; it does not entitle us to treat the escalator as "an advertisement".

Somewhat similar difficulties arise about window display. Every tradesman tries to make his shop express the character or reputation which he wishes to be associated with his business. The self-conscious absence of advertisement is therefore itself in a sense a form of advertising. The West End tailor whose window contains nothing but a dusty curtain; the hatter who carefully preserves the eighteenth-century façade of his shop, and who displays in the window not the latest models but battered specimens of the headgear of a bygone age, is each, in his own way, "window-dressing". It might be said that he is advertising to the haters of advertising.

This is perhaps a little fanciful. The great bulk of the money spent on window display is undoubtedly spent on

advertising in the strict sense, since it is expressly designed to catch the passing eye and so to promote sales. The care and expense employed in the window-dressing of the big stores and fashionable shops is sufficiently obvious to require no emphasis. In the case of the smaller shops it is the manufacturer who supplies most of the material for display. The cards, dummy containers, devices of every kind supplied by the manufacturer for use in the retailer's window or in the shop itself, are simply an extension of his other advertising outlay.

The elaborate and attractive wrappings and containers used for many advertised goods are also properly to be regarded as a part of advertising display, as are the free gifts and reminders in the form of calendars, ash-trays, diaries, blotters, pencils, etc., which many advertisers employ to keep their name in the minds of their customers. The design, printing and manufacture of all this display material employs many specialist firms and accounts in the aggregate for a very considerable proportion of the total outlay on advertising.

### V. RADIO, CINEMA, AND SOME OTHER MEDIA.

Radio advertising, which has attained vast dimensions in the United States, is banned in this country, so far as programmes originating in Great Britain are concerned. But before the war some British advertisers were making increasing use of facilities for broadcasting sponsored programmes in English from foreign stations. The International Broadcasting Company, which operated concessions from stations abroad, was founded in 1930, and from that time until the outbreak of war commercial broadcasting was carried on regularly, despite strong opposition from many powerful interests in this country. In the early days the chief medium was Radio-Paris, but when the French Government took over this station in 1933 its sponsored programmes in English were stopped. The Irish Government station at Athlone permitted sponsored broadcasts for a time but refused to renew the



International Broadcasting Company's concession after the first year.

The chief stations open to the English advertiser up to the war were Luxembourg and Radio-Normandy. Both these stations could be well heard in England, and there were others, like Poste-Parisien, Radio-Lyons, and Toulouse, which could be heard in different parts of this country and at different hours of the day or night. The time available for advertisers was limited, and at the most popular listening hours the B.B.C. was, of course, a powerful competitor. Yet in spite of these and many other difficulties, radio advertising was making considerable strides before the war. It was estimated that at least five million listeners in this country were in the habit of tuning in to the foreign advertising stations; and that a sponsored programme from Luxembourg or Normandy might have an audience of a million people. Studio facilities for the recording of programmes were provided by the International Broadcasting Company, by some of the film studios, and also by certain of the leading advertising agencies, especially the J. Walter Thompson Company, London branch of one of the biggest American agencies, which made a special study of the technique of radio advertising.

It is impossible to say whether radio advertising will be revived after the war. It had lasted too short a time for any definite judgment as to its acceptability by the British public to be possible. It seems certain that those listeners who tuned in to the foreign stations did so for the entertainment provided, and that sponsored programmes were encouraged by the pre-war limitations of the B.B.C. Radio advertising must be regarded as a form of "reminder" advertising similar in its own sphere to the poster; the actual sales talk must be restricted to a very few words at a time. Yet in spite of these limitations some very experienced advertisers were convinced that it was a profitable method, and spent large sums of money on it.

The film is another comparatively new means of advertising which, within certain definite limits, is used to good effect. Some big firms make use of straightforward advertising films, paying a fee for them to be shown as a part of an ordinary cinema programme. Obviously there is a rather narrow limit to the number of films of this kind which can be absorbed by the trade. A cinema audience, which has paid for its entertainment, will be resentful if more than a very small fraction of the programme is occupied by advertising. Some cinemas refuse to exhibit advertising films altogether, and in general not more than one short advertising film, say of five minutes' duration, can be shown in any one programme. On the other hand, some films of an advertising character can be made so interesting that they will be rented by cinemas in the usual way. These are generally films of an informative kind, illustrating new products and processes, or the work of an industry as a whole.

A more important development in film advertising is the "non-theatrical" film—i.e. the film designed to be shown separately, and not as part of a regular entertainment programme. The film is obviously an excellent medium for illustrating and explaining processes of production and distribution, and the uses to which a commercial product can be put. The firms who specialise in the production of films for advertisers find that the greatest demand is for "documentary" films of this kind to be shown to specially assembled audiences consisting of the advertiser's staff, or of his agents or customers. Such films are designed sometimes for display in a specially hired theatre, sometimes for show out-of-doors as part of a travelling exhibit, sometimes as a kind of moving poster in a fixed position where large numbers of the public congregate. The documentary film is undoubtedly a factor of growing importance in education and in propaganda; it seems likely that its main development will be in these directions, and that as a medium for advertising properly so called it will continue to occupy a secondary role.

## THE ECONOMICS OF ADVERTISING

The methods of advertising referred to in this chapter by no means exhaust the list. The ingenuity of the advertiser is inexhaustible, and is constantly stimulated by the activities of agents in search of new media, or those of people who see a chance of supplementing their income by making some part of their property available for advertising. Almost every printed document put into the hands of large numbers of the public is a potential medium of advertisement. Thus the Post Office accepts advertisements for its books of stamps, railways and bus companies for the backs of their tickets, theatres and cinemas for their programmes, popular restaurants for their menu-cards, tradesmen for their bill-heads, and so on.<sup>1</sup>

Occasionally the search for new and original methods of advertising leads to absurd extravagances. The solid good sense of the British public is the best safeguard against such excesses. Thus when a smartly dressed man walked along the Strand bearing a suitcase with the name and address of a tailor and the slogan "Watch My Crease", it is certain that most of the people who saw him felt nothing but embarrassment and pity for the human medium. Sometimes firms have sought to make the Law Courts a medium for advertising. "There is nothing in this case but a little advertisement", said one judge in opening his judgment, and these calm words were probably enough to rebuke the rash speculator and destroy any possibility of profit from that particular adventure. Any method of advertising will soon be abandoned if it does not pay; and no method of advertising will pay if it violates too grossly the ordinary man's sense of what is fitting. The ordinary man's sense in these matters is much more robust than that of the over-sensitive critics who "hate advertising". Most ordinary men in this country are themselves engaged in or dependent upon trade in one form or another for their living, and they

<sup>1</sup> Very often the bill-heads are printed by a manufacturer who supplies them free to retailers for the sake of the advertisement they bear.

## THE MEANS OF ADVERTISING

understand and respect the need of traders to seek markets and profits. They also respect and admire enterprise, and will not be unduly shocked if an advertiser in his search for novel methods occasionally oversteps the limit. But their disapproval, if he continues to offend, will soon make itself apparent in the most effective way.

## Chapter Three

### THE ADVERTISING OUTPUT:

#### I. TOTAL EXPENDITURE ON ADVERTISING

##### 1. SOME EARLIER ESTIMATES.

In recent years many guesses have been made at the total national expenditure on advertising. It is unfortunate that accurate statistics have never been collected, and most of the estimates come from leading advertising agents or newspaper proprietors who have been concerned mainly to demonstrate the magnitude of the part that advertising has come to play in the national economy. Thus Sir Gomer Berry (now Lord Kemsley) in 1927, and Sir William Crawford in 1930, each gave £150,000,000 as the annual expenditure on advertising, and this estimate was raised to £180,000,000 by a writer in *World's Press News*, also in 1930.<sup>1</sup> *The Statistical Review* quotes various other estimates ranging from £200,000,000 (the late Mr. Thomas Russell) to £70,000,000 (the late Lord Luke), and recalls that its own figure for the year 1935 was £125,000,000, made up as follows:

Press Advertising . . . . .	£39,000,000
Posters . . . . .	10,000,000
Other Outdoor Advertising . . . . .	5,000,000
Direct Mail . . . . .	50,000,000
Catalogues and Other Printed Matter . . . . .	15,000,000
Dealer Aids, Samples, Window Displays, etc. . . . .	5,000,000
Radio, Films, Skywriting, etc. . . . .	1,000,000
	<hr/>
	£125,000,000

As a result of a more recent computation, *The Statistical Review* estimate of press advertising for the years 1935 to 1938 has been raised to an average of £52,000,000

<sup>1</sup> Quoted by F. W. Taylor in *The Economics of Advertising*.

## THE ADVERTISING OUTPUT: I

annually.<sup>1</sup> There is a very large element of guess-work in all these figures, and two other independent inquiries conducted in recent years suggest that they are much too high. It is proposed in this chapter first to refer to the results of these two inquiries, and then to attempt a fresh analysis of the advertising output in the years immediately preceding the war.

Mr. F. W. Taylor, whose book was published in 1934,<sup>2</sup> makes an estimate of the value of advertising based upon the Census of Production, which gives the total value of the output of newspapers and of the general printing trade. He allows 55% of the value of newspaper output to advertising in the case of daily papers, and 40% in the case of weekly papers and periodicals. Of the output of the general printing trade other than the press he concludes that about 60% is attributable to advertising. Thus he arrives at the following table:

<i>Expenditure on Advertising :</i> (in thousands of pounds)	1907	1924	1930
In daily newspapers . . . . .	3,700	14,400	16,500
In weekly newspapers, magazines, etc. . . . .	1,800	6,500	6,900
In newspapers printed by outside firms <sup>3</sup> . . . . .	800	1,800	1,500
Advertisement printing (booklets, posters, etc.) . . . . .	15,500	35,000	35,000
Total . . . . .	21,800	57,700	59,900

He adds 20% to these totals to cover all other advertising expenditure, including posters, direct mail, window displays, films, administration, etc., and thus reaches a grand total of approximately £26,000,000 for the year 1907, and £70,000,000 for each of the years 1924 and 1930.

*The Economist* of February 20, 1937, made an estimate

<sup>1</sup> *The Statistical Review*, July, 1943.

<sup>2</sup> *Op. cit.*, Chapter II.

<sup>3</sup> One-third of the printing cost, as given in the Census.

## THE ECONOMICS OF ADVERTISING

of advertising output for the year 1935 which was summarised in the following table:

<i>Expenditure on Advertising, 1935</i>	
Press Advertising . . . . .	£35,000,000
Posters (including Railways, etc.) . . . . .	4,000,000
Direct Mail (based on an estimate by the Post-master-General) . . . . .	25,000,000
Window Display . . . . .	20,000,000
Miscellaneous—	
Radio . . . . .	£320,000
Films . . . . .	300,000
Sky and Signs . . . . .	380,000
	1,000,000
	£85,000,000

If allowance is made for a probable increase in advertising between the years 1930 and 1935, the estimates by Mr. Taylor and by *The Economist* are seen to correspond fairly closely so far as the grand total is concerned; but they differ very widely in the details, and this difference is an indication of the paucity of material upon which such estimates have to be based. *The Economist* gives no separate figure for the cost of printed advertisements other than the press. This must be included in the totals for Direct Mail and Window Display, which otherwise would seem to be very high. On the other hand, Mr. Taylor has almost certainly over-estimated the cost of printing and under-estimated the cost of other forms of advertising which are included together in his miscellaneous group.

The following analysis, in the preparation of which the author has consulted many experts in the different branches of advertising, makes no claim to give more than a rough estimate of the pre-war expenditure on advertising. In some cases the figures may be taken as fairly accurate; in others they are little more than guess-work. Even in the case of the press, where figures are easiest to obtain, it will be seen that there is plenty of room for error.

## THE ADVERTISING OUTPUT : I

### II. A NEW ANALYSIS.

#### *The Press.*

The Census of Production for 1935 (the latest year of issue) gives, in round figures, the following totals for the output value of the press, the figures including total receipts from sales, subscriptions and advertisements :

Daily newspapers	.	.	.	£32,500,000
Other newspapers	.	.	.	12,250,000
Magazines and Periodicals	.	.	.	11,750,000

£56,500,000

Applying Mr. Taylor's percentages to this total, we should have an estimated figure for press advertising in 1935 of £27,500,000. There are, however, two observations to be made. In the first place, it seems doubtful to the present writer whether Mr. Taylor's percentages are high enough. It is true that there are published figures showing that advertising accounted in pre-war years for no more than half the total revenue of *The Daily Express*. But *The Daily Express*, with its enormous sales, vastly exceeding those of any other daily newspaper, is an exceptional case. The proportion of advertisement to sales revenue is much higher in the case of newspapers of more limited sale, and may account for as much as three-quarters of the total, or even more. Similarly, 40% seems a low proportion to allot to advertising in the case of weekly newspapers and periodicals of every kind. There are a few weeklies of very large circulation, and a few magazines which command a high selling price, but on the other hand there are very many which derive almost the whole of their revenue from advertising. It seems to the present writer that a truer picture will be obtained if we assume that 60% of the revenue of daily papers, and 50% of that of all other periodical publications, is derived from advertising.

Secondly, it is to be observed that the totals given in the Census of Production are the totals of *receipts* by the



## THE ECONOMICS OF ADVERTISING

publishers. This means that they are net totals, and do not include the discounts allowed to advertising agents. The great bulk of the advertisements published in the press is handled by agents who are remunerated by means of a discount which they deduct from the payments made to the publishers. The average value of these discounts is about 12% in the case of the national newspapers, and may be higher in the case of provincial newspapers and periodicals. Allowing for advertisements which are placed direct and pay the full scale rates to the publishers, we shall probably not be far wrong if we add 10% to the *net* total of press advertising to reach the gross expenditure.

Applying these two corrections, we arrive at the following estimates :

### *Expenditure on Press Advertising, 1935*

Daily newspapers (60% of total receipts) . . .	£19,500,000
Other newspapers (50% of total receipts) . . .	6,125,000
Magazines and Periodicals (50% of total receipts)	5,875,000
	<hr/>
	£31,500,000
Add 10% to cover agency commissions . . .	3,150,000
	<hr/>
	<u>£34,650,000</u>

This is very close to the estimate of £35 millions given by *The Economist* for the year 1935, and we may accept this figure, with due allowance for the possibilities of error which have been indicated, as giving a fairly accurate idea of the total annual expenditure on press advertising in the years immediately preceding the war.

*The Statistical Review* estimate of £52 millions for press advertising, though the only one based largely upon an actual computation of the value of advertising in newspapers and magazines, appears impossibly high. It compares with the Census of Production figure of £56 millions for both advertising and sales revenue, and even allowing for the fact that the Census gives *net* figures and for a substantial margin of error, it seems impossible to reconcile the two. There are two possible sources of error in *The*

*Statistical Review* figures. That part of their estimate which is based upon actual computation (comprising the major part of the display advertising in the press) is necessarily calculated at the scale rates of the various publications (including the higher rates frequently charged for special positions). But in the years before the war a good deal of advertising was in fact published at rates below the advertised scale, and it seems probable that *The Statistical Review* estimate is considerably inflated for this reason, though by an amount which cannot be judged. Secondly, the figure given for Classified Advertising, which is not based on actual computation, is certainly too high. The author has been able to compare the estimate made by *The Statistical Review* of classified advertising in *The Times* for a single pre-war year with the actual figure of revenue from this source, and found that in this instance the error was substantial.

*The Statistical Review* has performed an invaluable service for the advertising business in providing for many years the only regular computation and analysis of advertising expenditures. The fact that it appears to have gone rather widely astray in this instance is evidence of the extreme difficulty of arriving at accurate conclusions from the evidence at present available.

### *Posters and Outdoor Advertising.*

It is estimated that the poster contractors in this country dispose of about 360,000 sites for standard "16-sheet" bills, and that the average rental charge is £3 per bill. In addition to rent, the contractors have to pay rates and licence fees, and when allowance is made for their other costs, and for profits, it seems that the amounts paid by advertisers in respect of regular poster contracts cannot be less than £5 millions per annum.<sup>1</sup>

To arrive at a figure for all outdoor advertising it is necessary to take into account poster sites owned and used by theatres and cinemas; posters on railways, buses and trams, and on many special sites; electric and other signs;

<sup>1</sup> Figures supplied by a member of the British Poster Advertising Association; they apply, of course, like all the other figures in this chapter, to the pre-war years.

skywriting, etc. Figures supplied to the author by a high authority indicate that the pre-war expenditure on railway sites and buses was in the neighbourhood of £2 millions a year. If we allow another half-million to cover all other forms of outdoor advertising, we reach a total under this heading of £7,500,000 annually. This does not include the cost of printing, which is dealt with under another heading.

### *Direct Mail.*

It is exceedingly difficult to arrive at any estimate of the amount spent annually before the war on advertising by post. Many firms favour this means of advertising because of its secrecy; neither commercial rivals nor scientific inquirers can measure and evaluate the activity of the advertiser who uses the post. The only possible way of approach seems to be to take as a basis of calculation the numbers of packets at printed-paper rate handled by the Post Office. In 1936 the then Postmaster-General stated in a speech that more than 3,000 million items pass through the post annually at printed-paper rate. If two-thirds of these are advertising, the bill for postage would be over £4 millions. Some advertising matter is sent at full postal rates. We have to allow also for the provision of mailing lists; costs of duplicating, dispatch, etc. In America, where better statistics are available than in this country, these costs are put at about one-tenth of the cost of postage.<sup>1</sup> With such meagre indications to guide us, we can only venture a guess that the total expenditure (apart from printing) on advertising by direct mail before the war was not less, and perhaps a good deal more, than £5 millions annually.

This figure of £5 millions is one-seventh of the total given above for press advertising. The figures given by Dr. Borden<sup>2</sup> for America show that expenditure on direct mail advertising there (apart from printing) is between one-seventh and one-eighth of that on press advertising. American advertising expenditure is on a much larger

<sup>1</sup> Borden, *op. cit.*

<sup>2</sup> *Op. cit.* See table at p. 54.

## THE ADVERTISING OUTPUT: I

scale than ours, but there is some reason to think that the proportions of the advertising dollar or pound devoted to the press and to direct mail are much the same in the two countries.<sup>1</sup> If this is so, then our figure of £5 millions for direct mail advertising seems likely to be nearer the truth than the estimate of £25 millions given by *The Economist*, even though the latter figure may include printing costs. Once again, *The Statistical Review* figure of £50 millions appears impossibly high.

### *Window and Shop Display.*

It is even more difficult to form an estimate of the total expenditure on display than on that of postal advertising. *The Economist* gives a figure of £20 millions under this heading, but without saying how the figure was calculated. There are many agencies which specialise in the provision of display services, but big manufacturers and retailers generally maintain their own departments for the purpose, and there are no published figures which give any guide to their outlay.

Before the war the Bank of England collected statistics of operating costs from 105 department stores in London and the provinces having an aggregate turnover of £53 millions, and it was stated that the expenditure on display by the stores concerned amounted to a half of 1% on this turnover. If we can get a figure for the total retail trade of the country, and if we assume that the percentage of display costs holds good for the larger aggregate, then we can make a guess at the total expenditure on display. Obviously it will be little more than a guess, but it may perhaps be taken as giving a maximum figure, since the average expenditure on display for all the retail establishments in the country is likely to be less, expressed as a percentage of turnover, than that of the important London and provincial stores on whose figures the Bank of England's estimate was based.

<sup>1</sup> Of two experts in direct mail advertising who have kindly answered the author's questions on this subject, one thinks that direct mail is used more, proportionately to press advertising, in America than here; the other thinks there is no great difference.

## THE ECONOMICS OF ADVERTISING

According to Mr. Colin Clark,<sup>1</sup> the retail turnover for the year 1932 was £2,296 millions, and figures compiled from sources to be referred to in Chapter Five<sup>2</sup> suggest that in 1938 the total had risen to about £2,600 millions. One-half of 1% would give a total of £13 millions as an estimated figure for advertising display.

This figure can also be roughly checked by reference to the American totals, though it is important to notice that under this heading the American estimates are themselves largely guess-work. Dr. Borden allots about 9% of the advertising expenditure in the United States to "consumer and dealer literature, labels, display material and other direct advertising". The same percentage would give a total of about £8 millions for this country. Perhaps we shall not be very far wrong if we put the pre-war expenditure on advertising display in this country at about £10 millions, bearing in mind that this will include a considerable sum for printing.

### *Radio and Film Advertising.*

Though both radio and film advertising were developing before the war, they still accounted for only a small part of the total outlay. It was estimated that in 1938 British advertisers paid about £950,000 for "time" on the Continental radio stations, and that perhaps another £550,000 should be allowed to cover the cost of programmes, agency services and other expenses.<sup>3</sup> The output of advertising films in the same year probably did not exceed a value of £500,000.

### *General Printing.*

Mr. Taylor's opinion that about 60% of the general printing output can be attributed to advertising seems very questionable. It is not generally realised that a very large part of the printing output—perhaps more than half of it—consists of routine material for industry and trade, forms, account sheets, invoices and the like. An estimate supplied

<sup>1</sup> *National Income and Outlay*, Macmillan, 1937.

<sup>2</sup> See *post*, p. 100.

<sup>3</sup> Estimates supplied to the author by the J. Walter Thompson Company.

## THE ADVERTISING OUTPUT: I

to the author by an officer of the British Federation of Master Printers suggests that of the total printing output of £55½ millions disclosed in the Census of Production for 1935, not more than about £15 millions was attributable to advertising. This figure is made up of £8 millions jobbing and general printing; £4½ millions litho printing (mainly for posters), and £2½ millions for blocks.

### *Advertising Production and Administration.*

It remains to add an estimate of the costs incurred in advertising production and administration. The advertising agents are remunerated almost entirely by commissions which are included in the figures given above for press advertising; but something extra must be allowed for the discounts they receive on other advertisement orders. Allowance must also be made for the cost of the advertisement departments maintained by large advertisers; for the fees paid to consultants, artists and writers, and for many other miscellaneous items not included above. Dr. Borden allows 10% on the grand total of advertising output for these costs in America. Probably that would be too high for this country, and 7½% has been preferred.

This enables us to summarise the estimated annual cost of advertising in the immediate pre-war years as follows:

### *Estimated Annual Expenditure on Advertising, 1935-1938*

	In thousands of pounds.
In the Press . . . . .	35,000
Posters (exclusive of printing) . . . . .	5,000
Other Outdoor Advertising . . . . .	2,500
Direct Mail (exclusive of printing) . . . . .	5,000
Window and Shop Display . . . . .	10,000
Radio . . . . .	1,500
Films . . . . .	500
General Printing (including Posters and Direct Mail) . . . . .	15,000
Administration . . . . .	6,000
	<u>80,500</u>

## THE ECONOMICS OF ADVERTISING

Since the above table was prepared, my attention has been drawn to the results of another inquiry which, though rather limited in scope, provides an interesting check upon the *relative* expenditures in the different types of media. The inquiry took the form of a questionnaire addressed by *The Statistical Review* to a number of leading advertisers. Sixty-nine replied, and their answers were analysed in the issue of January, 1939. The results showed that the advertising expenditure of these firms was divided as follows:

Press . . . . .	53.5%
Direct Mail . . . . .	7.5%
Posters . . . . .	7.7%
Other Outdoor Advertising . . . . .	3.9%
Dealer Aids . . . . .	7.3%
Novelties . . . . .	7.9%
Broadcasting and Films . . . . .	6.0%
Miscellaneous . . . . .	6.2%

Now, taking my figure of £35 millions for the press as the basis, and working out the other figures in these proportions, we should arrive at the following table of total expenditures under the main headings given. (I have assumed that "Dealer Aids" and "Novelties" may be regarded as roughly equivalent to my heading of "Window and Shop Display"):

Press . . . . .	£35,000,000
Direct Mail . . . . .	4,900,000
Posters . . . . .	£5,000,000
Other Outdoor Advertising . . . . .	2,600,000
Display . . . . .	9,900,000
Broadcasting and Films . . . . .	3,900,000

It will be seen that the picture presented by this sample inquiry strikingly confirms the conclusions reached quite independently by the methods I have indicated. The figures for Direct Mail, Outdoor Advertising and Display are almost exactly those I have given. The only important discrepancy is under the last heading of Broadcasting and

Films; but this item is a relatively small one, and would be disproportionately affected if one or more of the sample firms happened to be an exceptionally large user of either of these media. Of course, the results of this inquiry cannot be used to check the *absolute* totals of expenditure in the various media, only their relative values. Moreover, the sample was too small to be regarded as a very safe guide. However, it provides some confirmation of my estimates, which in any case are put forward only as rough approximations.

Perhaps all we are justified in saying is that the expenditure on advertising in this country before the war was approaching £100 millions a year, but had almost certainly not reached that figure. This represents something under 2% of the national income as against 3% in America. The latest estimate for America gives the total amount spent on advertising in 1942 as \$1,820,000,000.<sup>1</sup> This represents a decrease of about 5.2% as compared with the previous year, but a big increase on the figure of \$1,700,000,000 given by Dr. Borden for the year 1935.<sup>2</sup>

<sup>1</sup> Estimate by Dr. L. D. H. Weld, quoted in *Printers' Ink* for March 26, 1943.

<sup>2</sup> *Qb. cit.*, p. 54.



## Chapter Four

### THE ADVERTISING BUSINESS

THE task of handling this great annual turnover of some £80 millions gave employment before the war to a very large number of people, many of them highly expert in the different departments of activity included in the advertising business. This business had grown up, under the influence of the law of supply and demand, in a very haphazard way, but much progress had been made in introducing order and discipline and in establishing regular standards of conduct and procedure. Certain problems remained, and still remain, but their consideration must be deferred. All that can be attempted here is a brief descriptive sketch of the advertising business and of the various activities involved in the conduct of an advertising campaign. We may begin with the central figure in the business, the advertising agent.

#### I. THE ADVERTISING AGENT.

The agent occupies a quasi-professional position between the business man who wishes to advertise his goods or services and the owners of media in which the advertisements may be published. It is commonly supposed that this specialised calling is of very recent origin, but this is not altogether correct. The history of the advertising agency has yet to be written, but it seems probable that it stemmed from the activity of the eighteenth-century shopkeeper who "took in" advertisements for the newspapers. Thus the imprint on the first issue of the *Daily Universal Register* (later to be renamed *The Times*) announced that "Advertisements, Essays, Letters and Articles of Intelligence" would be taken in either at the printing office at Blackfriars, or at "Mr. Searles, No. 55, Oxford Street; Mr. Thrale's, opposite the Admiralty; Mrs. Wilson's, No. 45 Lombard Street; Mr. Pratt's, No. 84,

Wapping; and Mr. Sterney, No. 156, opposite St. George's Church, Southwark". This was in 1785. A year later there appeared in the list the name of Mr. Axtell of No. 1, Finch Lane, Cornhill. Mr. Axtell's business was later absorbed by that of Davies & Company, which still flourishes in the City as an advertising agency, and may probably claim to be the oldest now existing, though others, including that founded by R. F. White (who engaged Charles Lamb to write "copy" for lottery advertisements), date from the very early years of the nineteenth century.

For his services in taking in advertisements the agent was allowed by the publisher to retain part of the price; and this discount or commission, which at some early date became more or less fixed at 10%, has remained through all the subsequent vicissitudes of the advertising agent as the main source of his remuneration.

Thus the agent began as a mere receiver and transmitter of advertisements for the convenience alike of the publishers and of those who wished to insert notices in the papers. But as advertising grew, the scope of the agent's activities rapidly developed. Charles Mitchell, who in 1836 founded the agency that still bears his name, pointed out<sup>1</sup> how the work of the agent simplified the operations of advertising for both the advertiser and the newspaper. The former, he said, had the benefit of experienced advice in the selection of suitable media, and was able to make the requisite arrangements with ease, certainty and dispatch, opening accounts only with one party instead of with a hundred or two. The newspaper proprietor, on his side, was relieved of the necessity of negotiating separately with each advertiser and of satisfying himself as to his credit and solvency.

The functions thus defined are a part of the routine of the modern agency, and they are indispensable in present-day conditions to the smooth operation of the business. But the modern agent has greatly widened the scope of his services. He now holds himself out as an expert in all the

<sup>1</sup> In the first issue of the *Newspaper Press Directory*, published in 1846.

various tasks connected with the marketing and advertising of goods, and the leading agencies employ writers, artists, typographers and technical experts of many different kinds. The agent is thus able to bring to the advertiser's service both a highly specialised technical equipment and an experience of marketing and advertising gained in dealing with a wide variety of products and conditions. Most large advertisers, of course, maintain departments of their own under the charge of an experienced advertising manager. He interprets the general policy of the company and often plays a large part in the preparation of the plan and the writing of the "copy"; but very few, even of the biggest advertisers, find it advantageous to dispense with the services of the agent altogether.

In his main function the agent of to-day is the professional adviser and representative of the advertiser. But his services are of equal importance to the publishers, for he undertakes all the complicated operations involved in an advertising campaign and carries all the responsibility for credit transactions on behalf of his clients. Moreover, the publishers look to him primarily for the development and improvement of the advertising which appears in their columns. For these reasons the agent continues to draw his remuneration from the discounts allowed him by the publishers, and though this system may seem in present-day conditions illogical and anachronistic, it has certain practical advantages. The publishers allow the discount only to those agents who are "recognised" as such by them, and recognition involves an undertaking by the agent to maintain certain definite standards of service and practice. Thus, in the years when advertising was rapidly expanding, the control exercised by the publishers through the power to grant or withhold recognition was the means by which the standards of service were raised, and those standards are still protected by the same means against the dangers involved in uncontrolled competition. Some advertisers now feel that the system has served its purpose, and is liable in the future to prove unduly restrictive. This

raises issues which are outside the scope of this book. It may be said that as advertising comes to be more seriously regarded by business men, and less as a matter of "hit or miss" in which skilled advice and responsible service have but a trifling part to play, the necessity for protecting the agent grows less pressing, but the agents themselves and the publishers are likely to move cautiously towards any relaxation of the present means of control.

In the meantime it cannot be said that there is any evidence of the agency business becoming a close corporation. According to the *Advertisers' Annual*<sup>1</sup> there were in 1943 no fewer than 352 firms practising as general advertising agents in London, and 255 more in the provinces, Scotland, Wales and Northern Ireland. Of these, 252 were recognised jointly by the Newspaper Proprietors' Association, representing the national press, and the Newspaper Society, representing the provincial press; while the latter body separately recognised 100 more. The Periodical Proprietors' Association has a total of more than 400 recognised agents on its list, including, of course, most of those recognised by the other two societies.

Of this very large number of agencies, recognised and unrecognised, the majority are probably very small, employing only a few people, and responsible for an output of only a few thousands of pounds a year. But the biggest advertising agencies are very big businesses indeed. The largest of all, the London Press Exchange, had a turnover in 1938 of nearly £1½ millions in press advertising alone; several others exceeded £1 million, and upwards of fifty reached turnovers of six figures. In addition to press advertising, nearly all these leading agencies maintain special departments for handling poster campaigns, film, radio and direct mail advertising, and so on.

## II. SPECIALISED ADVERTISING SERVICES.

There are special as well as general advertising agencies, i.e. firms who limit their service to one or more of the many

<sup>1</sup> Issued by Business Publications Ltd.

branches of advertising. According to the *Advertiser's Annual*, there were in 1943 some 60 firms specialising in theatrical advertising, and nearly 100 in film advertising. There were 16 listed as specialists in financial advertising and 11 as specialists in radio advertising. The experts in direct mail numbered about 100. There is no doubt much duplication in these figures, many firms being listed under more than one heading; but the scope of modern advertising activity may be judged from the fact that it gives employment to some 800 agencies in these islands altogether.

The business of the advertising agent properly so called shades off into that of many other firms or individuals who offer expert service of one kind or another to the advertiser or to the agent himself. In a class by themselves are the "consultants", who are prepared to give professional advice on marketing problems or on the planning of campaigns. They are distinguished from the "agents" by the fact that they do not undertake the business of contracting for the publication of the advertisements. There are some 85 firms offering "copy" service, and about 250 commercial art and photographic studios in London alone, and about an equal number in the provinces, at the service of advertisers.

The extraordinary variety of the means employed in modern publicity is strikingly revealed by the existence of some 150 businesses under the heading of "Advertising Novelties". The descriptive terms embodied in their titles comprise Airballs, Balloon Publicity, Folding Boxes, Celluloids, Cinema Signs, Insulators, Leathercrafts, Magnets, Art Metals, "Ad-Pencils", Pneumatic Displays, Potteries, Pulpware, Rubber Novelties, Tapes, Tickets, Trays, Universal Buttons, and Wondersigns. Another large group of firms offers expert service in window-dressing and other forms of display, including exhibitions, advertisement fixtures, showcards and mechanical displays. More than 200 of these specialists are listed in the *Advertiser's Annual*, though once again it must be said that there is probably much duplication in these totals.

## THE ADVERTISING BUSINESS

Outdoor advertising is an industry by itself. So far as regular posters are concerned, it is necessarily very much localised. Every considerable town has one or more poster contractors, who are employed partly in serving local advertisers, and partly in carrying out contracts for the larger firms who undertake poster campaigns for the big national advertisers. It would be difficult to say how many people are employed in this business, but the number must be very large, since a great deal of work is involved not only in the planning and preparation of a poster campaign, and in the distribution and posting of the bills, but also in the continual checking and replacement made necessary by wind and weather. According to Mr. Sheldon,<sup>1</sup> the town of Leeds alone contained about 650 posting stations in the year 1927; and as each bill posted for a three months' contract would require to be renewed at least once during that period, it is evident that the mere physical work associated with the poster business must be an important source of employment all over the country. At the time of writing there are 55 firms of poster contractors in membership of the London Poster Advertising Association, and 600 in membership of the British Poster Advertising Association.

Other forms of outdoor advertising give employment to more than 200 firms of "Outdoor Publicity Contractors" listed in the *Advertiser's Annual*. They include specialists in railway, bus and van advertising; contractors for electric and other outdoor signs; for aerial photography; sky-writing; sandwichmen, and so on.

### III. THE PRINTER AND THE PRESS.

Apart from the many hundreds of firms engaged exclusively in the business of advertising, account must be taken of the extra employment provided in some of the older industries, and especially those of the printer and the publisher. We found reason to think that between a quarter and a third of the total output of the general

<sup>1</sup> *Poster Advertising*.

## THE ECONOMICS OF ADVERTISING

printing industry in this country is accounted for by advertising, and this probably gives an inadequate measure of the proportion of the brains and the skill of the industry devoted to meeting the requirements of the advertiser. "The creative side of direct advertising has not yet been taken out of the hands of the printer, as has newspaper advertising and book design."<sup>1</sup> Not only is every local printer dependent largely upon the advertiser for his living, but the effort to improve the methods of printed salesmanship has been one of the most important factors in the development of the art of printing in recent years. The pioneers of modern typography owe much to the encouragement of the advertising expert, always seeking ways of presenting his case to the public in clearer and more attractive style. The many private presses which have done so much to raise printing standards could hardly have been established or have held their own without the orders they have received from advertisers.

The art of illustration, and colour printing in its many forms, owe a special debt to advertising. Lithographic printing is used mainly for posters; photogravure was developed largely in response to the demand of advertisers for colour in magazines and periodicals; collotype and other refined processes for the exact reproduction which some modern advertising requires. There are also many firms of type-founders, block-makers and engravers who specialise in meeting the requirements of advertisers. A few of the leading advertising agencies maintain their own printing departments, but the majority rely upon the services of these specialists. It is comparatively rare, nowadays, for a newspaper to be asked to set a display advertisement sent in by an agency. The work is usually done by one of the advertisement printers, and the "copy" supplied to the publisher in the form of a stereo or a matrix.

According to the *Advertiser's Annual*, there are in this country some 2,000 firms of general or specialised printers, more than 100 ink-makers, type-founders and type-setters,

<sup>1</sup> *Printing in the 20th Century*, The Times Publishing Company Ltd., 1930.

## THE ADVERTISING BUSINESS

several hundred engravers and block-makers. All, or nearly all, may be regarded as dependent to an unknown but certainly substantial degree upon the advertiser for their employment.

All the immense activity hitherto described is concerned with the production of advertising. The publisher of a newspaper or magazine is concerned mainly with its destination. Every important newspaper or periodical has its Advertisement Manager whose task is to see that the space available for advertisements is suitably filled. He may have a large staff under his direction, including specialists of many kinds. For "selling space" to-day is a very different business from what it was half a century ago, when the revenue of a paper often depended largely upon the "personality" of its advertisement manager and his capacity to dispense lavish hospitality to all comers. Nowadays the advertiser or his agent wants much detailed technical information about the circulation of the paper, about the distribution of its readers, their social standing, their age groups, their reliance upon its views and comments, the features they are most interested in, and so on. A large part of the advertisement manager's time is devoted to providing this kind of information, so that he employs statisticians and experts of various kinds, as well as a staff of salesmen.

The demand for information about markets and the best means of reaching and influencing them has led also to the establishment of a number of businesses specialising in market research for the advertiser. The technique of house-to-house inquiry, the building up of statistical information about people and their wants, their habits and their likes and dislikes, was making rapid progress in this country before the war, mainly under the stimulus of the advertiser's demand for sales.

Still another specialised form of service is that of the agencies which undertake to obtain advertisements for the publisher. Many of the smaller periodicals, instead of maintaining their own advertisement staff, find it more



convenient to farm out this work to contractors who may act as representatives for a large number of publishers. The *Advertiser's Annual* lists 120 firms engaged in this branch of the business, and there is much specialisation within the field, some firms acting exclusively as London representatives for provincial papers, or for overseas papers and so on.

#### IV. THE ADVERTISING BORDERLAND.

This brief sketch has not exhausted the list of those engaged, more or less directly, in the vast business of advertising. There is a wide borderland in which the clear foreground of advertising becomes merged in the less distinct territories of "propaganda" and "publicity". To the former belongs the new profession of Public Relations Officers, which has grown rapidly in the past few years, and especially since the war.<sup>1</sup> The Public Relations Officer is usually a man who has gained his experience in advertising or in journalism, and who is employed by a Government Department or a big commercial organisation to see that its policies or actions are understood and viewed in a proper and favourable light by the public. Very often the Public Relations Officer exercises general supervision over both the advertising and the publicity of his department or company.

The term "publicity", as we saw in Chapter One, is frequently used to distinguish those forms of advertising in which no commercial transaction is involved and in which, as a rule, the interest of the advertiser is not openly declared. The activities of business men very often have a considerable "news interest" for the public, and keen advertisers will take care to see that such matters are brought to the notice of the news editors. Some of the leading advertising agencies maintain "editorial" departments to provide this service for their clients, but there are

<sup>1</sup> In a recent correspondence in *The Times* competing claims were put forward as to who was the first Public Relations Officer. It seems that the Southern Railway was the first to appoint an official under that title in 1925, but it is clear that the office existed in many large organisations before the title was invented.

also many press agents who specialise in this work alone. Their activities are naturally regarded with some suspicion by the press, which is constantly on the alert to prevent the abuse of its news columns by the advertiser in search of a free "puff". Nevertheless, there is a legitimate place in the advertising borderland for the properly conducted press agency. It is often a convenience to news editors to have items of commercial news prepared and presented by skilled journalists from outside, and no reasonable exception can be taken provided there is no attempt at deception as to the source or motive of the items sent in, and no attempt at pressure to secure their publication.

There is also a wide field for the press agent in the realm of non-commercial propaganda, in connection with public campaigns of many kinds, charity appeals and the like. Yet there is danger in all these things. The experienced advertiser is chary of dealing in the somewhat suspicious currency of "propaganda", and aware that the credit of straightforward advertising may not always be enhanced by what goes on in the shadowy fringe of its own proper territory.

### V. ADVERTISING ORGANISATIONS.

Finally, some mention should be made of the very large number of organisations that exist to further the interests of those engaged in the business of advertising. They fall into two main groups: those which are strictly business associations designed to represent the firms engaged in a particular branch of the industry; and those whose object is the development of advertising as a whole, and whose membership is therefore open to all the competing groups.

The advertisers themselves are represented by the Incorporated Society of British Advertisers, membership of which is open to all firms not interested in selling advertising, and the objects of which are stated to be the "protection and advancement of the sales and advertising interests of member firms by organised representation, co-operation, action

and exchange of information and experience". The I.S.B.A. acts as a negotiating body for advertisers in their general relations with the agents, the press and the representatives of the other advertising media. It has been particularly active in trying to secure more scientific information about newspaper circulations and the like, and has itself promoted research into those matters for the benefit of its members.

There are various organisations representing special groups of advertisers, such as the Retail Distributors Association; the Building Societies Association; the Proprietary Association of Great Britain, representing the owners and manufacturers of proprietary remedies and foods; and the Association of Development Officers, representing those interested in making known the industrial and tourist facilities of localities in Britain. Sales managers have their own organisation in the Incorporated Sales Managers' Association; and the interests of advertising managers are watched over by the Incorporated Advertising Managers' Association, membership of which is limited to persons responsible for the advertising of organisations not selling advertising facilities.

The advertising agents have a central professional organisation in the Institute of Incorporated Practitioners in Advertising. It has as yet no legal powers of a professional kind, but has succeeded in establishing principles of conduct which are very generally accepted by its members, comprising nearly all the more important agencies. Its relations with the press advertisement committees are close, and by means of the practice of "recognition" to which reference has been made, a high degree of control has in fact been secured over the activities of persons or firms holding themselves out for employment as advertising practitioners. The Incorporated Society of Advertisement Consultants represents the small group of professional advisers who are not connected with the agency business. The condition of membership of this society is that the person concerned should be engaged as an adviser on

advertising, but should be remunerated directly by his principal and not through commissions or discounts on the payments made to advertising media.

All the leading groups of advertising media have associations to watch over their interests. The three press associations, the Newspaper Proprietors' Association, the Newspaper Society and the Periodical Press, have their advertisement committees, and there is also a Joint Committee which represents the three bodies together for certain purposes. The main task of these press advertisement committees has been the recognition of advertising agencies and the establishment and enforcement of standards for the agency business. They also watch over the "copy" submitted to their members for publication, consult together about questionable advertisements, about standards of type and display to be admitted, and about other matters involving their own interests or the protection of newspaper readers.

Reference has been made elsewhere to the two main organisations representing the poster business: the British Poster Advertising Association and the London Poster Advertising Association. These societies were called into being by the need of strong action to deal with the chaotic conditions prevailing in outdoor advertising during the last century. Their basic purposes are thus defined by Mr. Sheldon:<sup>1</sup> "To develop and maintain, through membership, a complete, efficient and economical medium; to create scientific rules in relation to structures and the use of buildings; to improve the advertising value of the medium by putting into practice, as far as possible, uniform standards of construction and service; to co-operate with those interested in general community provide an organised means of disseminating standards of practice and service." \_\_\_\_\_ succeeded in some of these objects one who compares the orderly display of well-built hoardings of to-day with

<sup>1</sup> *A History of Poster Advertising*, Chap

the fly-poster's activities as revealed in many old prints of fifty or more years ago.<sup>1</sup>

Among the other principal means of advertising, direct mail is represented by the British Direct Mail Advertising Association, and display by the National Display Association. The interests of the general printers are watched over by the British Federation of Master Printers; those of the block-makers by the Federation of Master Process Engravers; and those of the stationers by the British Stationery Council. All these societies are active in matters affecting the development of advertising and the improvement of its technical and its ethical standards.

There remain the organisations which cover a wider field. The Audit Bureau of Circulations grew out of the efforts of advertisers to remove some of the guesswork from advertising by establishing a systematic register of newspaper "net sales". It is now an independent body supported jointly by many of the leading advertisers, agents and publishers. It has worked out a standard system of computing and certifying net sales, and its members thus have the benefit of exact and reliable information about one important factor in the planning of advertising campaigns. Like other voluntary associations in the advertising business, the Audit Bureau does not as yet command universal support, but it has grown steadily over the years, and has made a real contribution within its own sphere to the better organisation of the business.

One of the most interesting developments in advertising between the wars was the growth in what is called the "Club Movement". The Advertising and Publicity Clubs which have been formed in London, Manchester, Leeds, Sheffield, Leicester, Glasgow, Cardiff and other big centres have been largely supported by the younger men and women in the business. They serve to some extent the same purpose as the moots, the debating societies and the

<sup>1</sup> See, for example, a contemporary artist's impression of mid-Victorian poster advertising reproduced in *A Newspaper History*, published by The Times Publishing Company Ltd., 1935, at p. 192.

## THE ADVERTISING BUSINESS

common rooms of the older professions, and have provided means of expression for a new, a co-operative and an idealistic spirit which was certainly not always apparent among advertising men in days gone by. In the Clubs speech is free and the fiercest critics are welcomed. The problems of advertising are debated by many of those who will have the shaping of the business in days to come, and they are debated with an increasing sense of the social responsibility resting upon those who wield the vast power of modern advertising. The Clubs also give much attention to the technical problems of advertising, and are prominent in support of the educational and "vigilance" work carried on by the Advertising Association.

### VI. THE ADVERTISING ASSOCIATION.

The Association itself is a federal body to which almost all the societies mentioned are affiliated. Formed in 1926, it has taken over, co-ordinated and developed many of the activities designed for the improvement of advertising as a whole, while not interfering with those matters which are the special concern of the individual societies. The aims of the Advertising Association are thus defined in its annual report:

- "(1) To encourage the study of the theory and practice of advertising and the improvement of its technique by the institution of courses of study, the holding of examinations and awarding of diplomas.
- (2) To promote and conserve public confidence in advertising and advertised goods through the correction or suppression of abuses which tend to undermine that confidence.
- (3) To demonstrate the efficiency of the service that members of the advertising and allied professions can give to industry.
- (4) To conserve the common interests of those engaged in advertising by promoting co-operative action, and instituting protective measures.
- (5) To establish advertising as an essential factor in the marketing of produce and manufactured goods."

## THE ECONOMICS OF ADVERTISING

In pursuit of these objects the Association has maintained for many years an Education Department, which promotes courses of study and holds regular examinations; an Investigation Department, which inquires into all allegations of fraudulent or misleading advertisements and makes recommendations to its members; and a Publicity Committee, which seeks to establish the case for advertising and to promote public confidence in advertised and branded goods. The Association has conducted many special inquiries into different branches of advertising, often with the aid of outside authorities concerned. Thus, in conjunction with the British Medical Association and other bodies it has made a searching inquiry into the advertising of patent medicines, and played a large part in promoting legislative action which resulted in the Act of 1941. It has established relations with the Government Departments, trade and professional organisations concerned from time to time with advertising, and is ready to act both in defence of what its members consider to be their legitimate interests, and to protect the public by preventing the misuse of advertising. The Association is also the main link between the advertising business in this country and in the other countries of the British Empire, of Europe and of America. In the years before the war it joined in promoting many international gatherings of advertising people; and it has to-day a committee at work preparing for the resumption of export trade and of renewed business contacts with other lands.

All these are matters which must be reserved for fuller consideration in a later volume, but a final reference must be made to the recent action of the Advertising Association in inviting the National Institute of Economic and Social Research to conduct an independent inquiry into the economic effects of advertising in this country. The statement issued by the Association makes it quite clear that the inquiry is to be a truly impartial one, in which the Association's own share will be limited to opening up, so far as possible, the sources of information. In

commenting upon this announcement *The Economist* said: <sup>1</sup>

"Although the Advertising Association, in addition to sponsoring the project, will give every facility for the collection of data, there is no certainty that the conclusions will be welcome to the Association. The topic has an enormous economic importance. The extent to which advertising does, in fact, increase and regularise both output and demand; the part played by it during the trade cycle in both booms and slumps; the diversion of resources it may cause from other activities; the degree to which the prices paid by consumers are inflated and maintained high by advertising charges, an issue of the greatest importance in founding the standard of living upon a cheap and ample supply of necessary goods and services—these are crucial questions and potent factors in the nation's prosperity and welfare. Nor do these obvious issues exhaust the field of research. The role of advertising in modern distribution is large and complicated. In the building up of branded goods, for instance, advertisement can be said to create monopolies—in a new sense, but no less restrictive of consumer's choice than the old-style monopoly. If this inquiry leads to full and frank conclusions about all these and other matters, both the Association and the Institute are indeed to be thanked."

The results of this inquiry will certainly be awaited with keen interest not only by business men, but also by the large and increasing numbers of people who are to-day aware of advertising and its potentialities for good or ill in the economic and social life of this country. The problems are many and complicated. In the remaining chapters of this book an effort is made to define those falling strictly within the economic sphere as they appear to the present author. It is hoped that a preliminary study of them may help to prepare the way for the more authoritative treatment which will in any case take time, and the success of which will in some measure depend upon an understanding of the issues by those whose co-operation will be needed in furnishing the evidence.

<sup>1</sup> July 17, 1943.



## Chapter Five

### THE ADVERTISING OUTPUT:

#### II. THE PRODUCTS ADVERTISED

In this chapter I propose to attempt an analysis of the pre-war advertising output, showing how the expenditure was divided among the main groups of products represented. The first section will give the general picture; the second a more detailed analysis of each main group. Finally, I shall have something to say about the bearing of this inquiry upon some of the economic questions to be discussed later on.

For the figures given in this chapter I am indebted mainly to the Statistical Department of the London Press Exchange and to the proprietors of *The Statistical Review*, who have very kindly provided me with much detailed information from their records. It is hardly necessary to repeat that the figures must not be taken as exact; they are computations, and in some cases estimates, liable possibly to wide margins of error for the reasons already indicated. This is not a very serious matter for my present purpose, which is to show *relative* expenditures, and I believe that from this point of view the picture presented may be regarded as substantially accurate. A more serious disadvantage is that the figures relate only to advertising in the press, which, as we have seen, accounts for less than half the total expenditure. I am disposed to think that if posters, direct mail, radio and the rest could be incorporated, the general picture would not be greatly changed; but I have nothing more exact than general observation and experience to put forward in support of this view.

#### I. THE GENERAL PICTURE:

The following table shows the break-down of expenditure

## THE ADVERTISING OUTPUT: II

on displayed advertising in the press, by class of product or service, for the last full pre-war year, 1938:

### *Display Advertising in the Press by Leading Groups of Products and Services, 1938*

Classification.	Amount.	Percentage of Total.
<b>1. FOOD AND DRINK</b>		
Foods . . . . .	£3,807,421	
Drinks . . . . .	1,438,877	
	£5,246,298	18.3
<b>2. HOUSEHOLD SUPPLIES</b>		
Equipment . . . . .	£2,482,861	
Stores . . . . .	1,209,995	
	3,692,856	12.9
<b>3. MEDICINES . . . . .</b>	3,147,046	11.0
<b>4. WEARING APPAREL . . . . .</b>	3,118,695	10.9
<b>5. TRANSPORT</b>		
Motoring . . . . .	£2,076,787	
Travel . . . . .	781,025	
	2,857,812	10.0
<b>6. TOILET . . . . .</b>	2,804,405	9.8
<b>7. FINANCIAL . . . . .</b>	1,870,892	6.5
<b>8. ENTERTAINMENT . . . . .</b>	1,795,338	6.3
<b>9. SMOKING</b>		
Cigarettes . . . . .	£1,378,453	
Tobacco, etc. . . . .	367,059	
	1,745,512	6.1
<b>10. MISCELLANEOUS . . . . .</b>	2,340,698	8.2
	£28,619,552 <sup>1</sup>	100.0

Before proceeding to a closer analysis of the leading groups listed in this table we may note one or two general points. It is unfortunate that the figures give no clue to the relative expenditures on advertising by manufacturers and by retailers respectively. However, *The Statistical*

<sup>1</sup> The difference between this total and the figure of £35 millions given in Chapter Three as the total of press advertising may be taken as representing the value of classified advertising, which is not included in the above table.

*Review* gives quarterly figures for the expenditure of some 40 leading retail shops and department stores; and a study of these figures for the four quarters of 1938 indicates that this group of large retailers spent in that year about £1½ millions on advertising in the press. Local retailers account for a good deal of the display advertising in the provincial and local press, but the rates for this are relatively low compared with those for national advertising. It seems improbable that advertising by retailers exceeds about 10% of the grand total given in the table. This, as we saw in Chapter One, is enough to act as some check upon the efforts of manufacturers to secure control of their markets; but the great bulk of the advertising in all the groups, except possibly that of Wearing Apparel, is undoubtedly manufacturers' advertising.

Secondly, the great bulk of press advertising is that of consumption goods. The products of heavy industry, and industrial goods generally, are little advertised except in the trade and technical press. This is because the market for them is limited, and the producer is usually able to make direct contact with his potential customers, who are normally experts; who know what they want, and are more interested in detailed specifications than in the kind of blandishments normally employed by the advertiser of consumption goods. In recent years, however, and more especially since the war, there has been an increasing tendency for engineering firms and other representatives of heavy industry to undertake national advertising campaigns. These are often intended for propaganda purposes, to build up public goodwill for the firm or the industry, and to promote understanding of its policies and activities.

Thirdly, we shall find, as was to be expected, that the great bulk of the expenditure in all the groups relates to the advertising of branded goods. Even under the headings of Food and Drink and Household Stores, many of the great staple articles of consumption make only a small contribution to the advertising total. We saw the reason

for this in Chapter One. The profitable use of advertising by a producer depends upon the existence of certain conditions, and notably that his goods should be capable of differentiation from those of his competitors; that they should conform to a regular standard, and be so made up as to be easily recognisable by the consumer. In the absence of these conditions it is difficult for the producer to fix the demand which advertising creates upon his own product, and thus to secure the benefit of it for himself. A great many staple consumption goods are not easily susceptible to this kind of differentiation. They include basic foodstuffs like bread, milk, meat, potatoes and green vegetables, fruit, sugar and rice; as well as coal, nails and screws and other hardware, and many similar products.

Yet though individual firms engaged in the production of such commodities find it difficult to advertise with profit to themselves, there has been an increasing desire among the members of the industries as a whole to secure the benefits of advertising. This has led to the development of co-operative advertising, in which many firms contribute to a central fund for a campaign designed to increase demand for the product rather than the demand for individual varieties of the product made and branded by individual producers. The gas industry was one of the first to embark upon this kind of advertising, which was peculiarly suited to it, since the industry consists of a great number of producers, all interested in the increase of demand for gas, but not competing directly with one another. The electricity suppliers soon followed suit, and it is interesting to observe that both these campaigns resulted over a period of years in a vast increase in output, without apparently injuring each other.<sup>1</sup>

In the ten years before the war a number of co-operative advertising campaigns were running, and the number was steadily increasing. Basic foodstuffs were represented by campaigns to increase the consumption of bread, milk,

<sup>1</sup> See, for example, figures given by the late Sir John Pybus in his Presidential Address to the Advertising Association, June, 1935, and quoted at page 194.

## THE ECONOMICS OF ADVERTISING

tea, fruit, fish, potatoes and other products; while the coal, steel and leather industries were among the others that had adopted the same policy. It seems likely that this kind of advertising may become increasingly important after the war, as compared with advertising by the proprietors of individual brands, and it is to be observed that co-operative advertising by an industry is free from some, though not all, of the criticisms raised by the economists, which we have to consider in the following chapters.

### II. THE TRADE GROUPS.

#### (1) *Food and Drink.*

Food and Drink together accounted for 18·3% of the total display advertising in the press in the last pre-war year. The expenditure of over £5 millions is further broken down in the following table. The figures must be regarded as approximations, as it is not always easy to decide in which category a particular product should be placed.

#### *Food and Drink Advertising*

Foodstuffs . . . . .	£1,620,452
Food Drinks . . . . .	1,150,308
Other Drinks (mainly alcoholic)	1,438,877
Confectionery . . . . .	595,017
Tinned Products . . . . .	225,259
Jams and Preserves . . . . .	216,385
	<hr/>
	£5,246,298

In the form of classification adopted by *The Statistical Review* the largest single group under the heading of Foodstuffs and Food Drinks is that of Health Foods, which accounted for a total expenditure of over £600,000 in 1938. Some 35 branded products are listed under this heading. Three food drinks, Ovaltine, Horlick's Malted Milk, and Bournvita, between them accounted for about two-thirds of this total. Other large advertisers were the manufacturers of baby foods, and of products such as Allenbury's Diet, Bemax, Benger's Food and Virol.

Akin to the Health Foods are the Beef Extracts. Here Bovril and Oxo dispute the field with five or six other advertisers competing. Beef extracts accounted for an expenditure of nearly £160,000 in 1938.

Cereal Foods are an important advertising group. They accounted for over £400,000 in 1938, which was shared among more than 30 advertised products. But here again a few leaders, Quaker Oats, Kellogg's, Shredded Wheat and Grape Nuts, dominated the field, and were responsible for more than four-fifths of the total expenditure.

Among other largely advertised foodstuffs and food drinks were Cocoa—total expenditure about £170,000, with 7 separate advertisers; Bread—about £160,000, with the co-operative campaign of the Millers' Mutual Association leading the way, and some 20 separate brands; Biscuits and Crispbreads—about £150,000, with more than 30 advertisers; Butter and Margarine—over £160,000, with 20 advertisers, New Zealand butter competing with Stork margarine for the lead; Cheese—£70,000, with 15 brands, Kraft, Diploma and St. Ivel accounting for most of the expenditure; Suets and Cooking Fats—£140,000, with 12 advertisers, of whom three again, Atora Suet, Spry and Trax were the big spenders; Fruits—£90,000, with 15 advertisers, the field dominated by co-operative campaigns for Australian and New Zealand apples, South African and Californian oranges, and by Fyffe's bananas and Sunmaid raisins; Sauces and Pickles—£87,000, with 20 advertisers and a number of famous brands, H.P., Yorkshire Relish, Lea and Perrins, Pan Yan, competing for the lead.

Tea and Coffee contributed £60,000 and £90,000 respectively. In the case of the former, the co-operative campaign of the Empire Tea Bureau was responsible for a substantial proportion of the total, but many individual brands were also advertised. The large expenditure on Coffee was due almost entirely to the advertising of two brands, Lyon's and Camp Coffee, though 14 other advertisers appear in the list.

## THE ECONOMICS OF ADVERTISING

In the Confectionery field, Chocolate is by far the largest item, accounting for over £400,000 in 1938. Of this total a single firm, Cadbury's, spent more than half, with Rowntree's a good second and the rest nowhere. There were 22 advertisers of chocolate altogether. Sweets and Toffees accounted for £160,000, with two firms, Rowntree and Mackintosh, easy leaders of a very large field.

Turning now to the advertising of Alcoholic Drinks, we find the following general picture:

<i>Drink Advertising</i>		
	Amount.	Number of Advertisers.
Beer and Cider . . . . .	£470,000	Over 90
Whisky . . . . .	350,000	62
Gin, Brandy and other spirits .	165,000	36
Wines . . . . .	300,000	58

Though the number of individual advertisers appears large, we again find that the bulk of the expenditure is attributable to a small number of dominant firms. Guinness alone contributed something over a quarter of the total spent on advertising beer. The co-operative campaign of the Brewers' Society accounted for about £70,000; other large national advertisers were Bass, Worthington, Whitbread and Younger. Three firms, Bulmer, Gaymer and Whiteway, accounted for almost the whole of the cider advertising. In the case of whisky, all the leading advertisers, Buchanan, Dewar, Haig, Walker and White Horse, are members of the Distillers' Company, as are also the two largest advertisers of gin, Booth's and Gordon's. In each case, however, there are independent brands maintaining steady advertising on a comparatively modest scale.

The total expenditure on the advertising of wines is inflated by the inclusion in the list of the so-called tonic wines, Hall's Wine, Phosferine and Wincarnis. These three, in fact, account for over 35% of the total. Over £40,000 was spent on advertising Empire wines. The

## THE ADVERTISING OUTPUT: II

balance is contributed by a large number of small expenditures.

### (2) *Household Supplies.*

This is a vast field which accounted for an expenditure of nearly £3,700,000 in 1938, or 12.9% of the total display advertising in the press. The following table shows some of the main items into which this expenditure can be broken down:

#### *Advertising of Household Supplies*

##### EQUIPMENT

Furniture . . . . .	£1,000,000
Lighting and Heating . . . . .	722,000
Building Supplies . . . . .	310,000
Vacuum Cleaners . . . . .	71,000
Refrigerators . . . . .	49,000

##### HOUSEHOLD STORES

Soaps and Washers . . . . .	823,000
Cleansers . . . . .	134,000
Paints, Stains, etc. . . . .	105,000
Floor and Furniture Polish . . . . .	94,000
Knitting and Rug Wools . . . . .	77,000
Dog Foods . . . . .	68,000

I do not propose to weary the reader with a detailed analysis of these figures. A very few indications will suffice to show that the advertising of household supplies is divided up much as is the advertising of food and drink between a large number of advertisers, with a few in each group contributing the great bulk of the expenditure. Fifty advertisers of Furniture are listed by *The Statistical Review*, and an unusual proportion of these are large spenders, ten firms exceeding £40,000 in press advertising during the year, while the three largest, Smart and Jay's, all exceeded £100,000, and the Heating group the advertising £100,000, and that of electricity and of electrical and other lighting and heating accounted for most of the balance.



tisers in this field, with the General Electric Company and Radiation Ltd. contributing well over £100,000 between them. The Vacuum Cleaner field is dominated by Hoover so far as advertising is concerned. There were 10 or more advertisers, but Hoover accounted for nearly £35,000 of the total of £71,000 spent on press advertising. Electrolux and Frigidaire are the big names in refrigerator advertising, and though there are 20 other advertisers listed, the two leaders accounted for £33,000 out of £49,000 spent on press advertising.

The great Lever combine and the rival firm of Hedley dominate the picture when we turn to the advertising of Household Soaps and Cleansers. Other advertisers in this field are relatively small, though it is to be noted that the Co-operative Wholesale Society spent over £30,000 on advertising this kind of product in the year under review. There are no such dominant figures in the advertising of Paints, Stains and Distempers. The Paint Marketing Council and the Lead Industries Development Council were both running co-operative campaigns on a fairly modest scale during 1938, and their efforts were supported by the advertising of some 70 competitive products. The advertisers of Floor and Furniture Polishes were much fewer in numbers, and a single product, Mansion Polish, accounted for a third of the total expenditure. The advertising of Knitting Wools was more evenly spread over some 38 firms; but two advertisers, Spillers and Spratts, contributed the bulk of the expenditure on the advertising of Dog Foods.

The classifications referred to by no means exhaust the possible divisions of the advertising of Household Supplies. Boot-polishes, baby-carriages, dyes, sewing-cotton, disinfectants, mangles and washing-machines, oven-ware, and a dozen other groups could be added. To the best of my ability I have examined them all, and the picture they present is not materially different from that outlined above. There is plenty of vigorous competition; there are many firms who seem to hold a place with but a small

outlay on advertising; but in every case the bulk of the expenditure is contributed by a few firms who have managed to secure a national reputation for their products.

### (3) *Medicines.*

We come to the most controversial of all the main groups of advertised products, the so-called "patent medicines". The fact that more than £3 millions are spent in a single year on this kind of advertising certainly gives food for thought. I am not here concerned with the social questions involved, but simply to describe the facts. The advertising of patent medicines may be broken down into the following main groups:

#### *Advertising of "Patent Medicines"*

Laxatives . . . . .	£650,000
Indigestion Remedies . . . . .	376,000
Aspirin and Pain Cures . . . . .	360,000
Hair Treatments . . . . .	235,000
Ointments . . . . .	167,000
Cough and Cold Cures . . . . .	152,000
Emulsions, Malt Preparations, etc. . . . .	107,000
Lotions and Liniments . . . . .	88,000
Asthma and Catarrh Remedies . . . . .	75,000
Reducing Preparations . . . . .	48,000
Unclassified . . . . .	889,000
	<hr/>
	£3,147,000

The large "unclassified" group includes a great variety of medicinal products, from simple tonics and tablets to "cures" of the iodine locket class. I have not attempted to classify the remedies for rheumatic complaints and high blood-pressure, the rejuvenators and so on which still disfigure the columns of some newspapers and magazines. There are still a few big individual advertisers in these and other groups who rightly earn the condemnation of the critics. But an immense improvement in the field of patent medicine advertising has

been achieved in the past twenty years, partly through the steady educational work carried on by bodies like the British Medical Association, but also through the patient activities of the Advertising Association, and the organisation of reputable advertisers in the Proprietary Association and its establishment of a code of rules for advertising. The joint efforts of the critics and of the advertising organisations led to the passing of the Medicines Act of 1941, which gave legislative force to many of the rules already adopted in the business, and finally excluded some of the worst and most dangerous forms of quackery. There is still plenty to criticise in the advertising of patent medicines, but it is fair to say that the great bulk of it nowadays refers not to "cure-alls" but to remedies of the simple household type for the minor ills which afflict mankind, and which, rightly or wrongly, most of mankind prefers to treat for itself. Let us look a little more closely at some of the groups listed above.

The largest single group is that of laxatives. Some of the advertising expenditures under this heading are enormous. Fynnon Salts spent over £100,000 in 1938; Andrew's Liver Salts, £80,000; Kruschen Salts, £75,000; and Eno's over £40,000. Among the advertisers of pills Beecham's accounted for £68,000; Doan's for £45,000; Carter's for £44,000; and De Witt's for over £23,000. But the largest expenditure of all was for Bile Beans, which accounted for over £120,000. Syrup of Figs was advertised to the tune of £50,000, and there were many other large and small competitors in the field.

There were 19 advertisers of remedies for indigestion. The biggest of all, Milk of Magnesia, spent over £100,000 on press advertising in the year; Maclean's Stomach Powder accounted for nearly £80,000; Bisurated Magnesia for £40,000; and at least four other advertisers exceeded £20,000.

In the Aspirin and Pain Cure group Aspro was easily first with an expenditure of over £170,000. Phensic followed with over £50,000; Beecham's Powders with

£45,000; Genasprin with £28,000; and Cephos with £25,000. There were 17 advertisers in this field altogether.

Hair Treatments comprise more than 40 advertised products, ranging from simple dressings like bay rum and vaseline to others for which extensive claims as hair restorers are made. Here again the largest advertisers are very large indeed, some £58,000 having been spent on the advertising of Lanalol; £34,000 on Vaseline Hair Tonic; and more than £20,000 each on Silvikrin and Harlene. Ointments present a similar picture, with 19 advertisers and a few very large expenditures—over £60,000 on Germoline; £35,000 on Zam Buk; and £25,000 on Cuticura.

It is unnecessary to pursue this analysis through the other groups of patent medicines I have listed. The picture is the same throughout, though expenditures by the leaders tend to be lower in the case of Emulsions, Cough and Cold Cures and the rest. But the whole field of medicinal advertising presents a picture of vigorous competition among many rival brands. There is a tendency to monopoly visible in the growth of big combines like the Beecham Trust, controlling a large number of advertised brands in many different groups; but even where they are strongest it would seem that competition is still effective.

#### (4) *Wearing Apparel.*

This group may be roughly subdivided as follows:

Drapery	.	.	.	.	.	£1,891,000
Clothing	.	.	.	.	.	843,000
Boots and Shoes	.	.	.	.	.	219,000
Jewellery	.	.	.	.	.	165,000
						<u>£3,118,000</u>

As we have seen, a large but indeterminable part of this expenditure, especially under the first heading, is attributable to the advertising of the retail drapery and department stores. According to *The Statistical Review*, the advertising of *branded* articles of wearing apparel amounted to no more than £1,177,000 in the year; so

that we may perhaps regard the difference between this figure and the total given above as providing a rough measure of the total advertising by retailers of wearing apparel. I am not sure that this conclusion is a safe one; there are many complicating factors. The 40 retail drapery and department stores listed by *The Statistical Review* are credited with an expenditure of nearly £1½ millions in 1938, and this was no doubt mainly, though by no means exclusively, on the advertising of clothes. Men's Outfitters accounted for about £140,000, Austin Reed being the largest spender with a total of over £55,000. Twelve firms of tailors spent upwards of £200,000 on advertising, of which the Fifty Shilling Tailors contributed about £60,000 and Montague Burton nearly £50,000.

Turning to manufacturers' advertising, we find the leading groups to be Corsets, with a total of £165,000 and 54 advertised products, Twilfit being the leader with an expenditure of about £38,000; Textiles, £150,000, with 35 advertised products and Courtaulds an easy leader with an individual expenditure of £54,000; Hosiery, £112,000, with 27 advertisers, Bear Brand, Wolsey and Aristoc contributing £70,000 between them; and Branded Underwear, £102,000, with 26 brands, of which three, Wolsey, Vedonis and Meridian, contributed £45,000.

Boots and Shoes were advertised by more than 40 separate firms, and the total of over £200,000 was spread fairly evenly. The largest individual advertiser, Barratt's, spent £40,000 in the year.

#### (5) *Transport.*

Motoring accounts for the great bulk of the expenditure under this heading, and the main advertising groups were the following:

<i>Motor Advertising</i>	
Motor-Cars . . . . .	£854,000
Petrol . . . . .	311,000
Motor Oils . . . . .	262,000
Tyres . . . . .	195,000
Commercial Cars . . . . .	140,000

## THE ADVERTISING OUTPUT: II

Certain accessories such as sparking plugs, brake lining and electrical equipment are also advertised extensively.

The pre-war advertising of the motor industry is too well remembered, even after more than four years, to require any very detailed description. Among the motor-car manufacturers there was some indication of a tendency towards monopoly in the formation of big groups like the Nuffield, Hillman-Humber and Daimler-Lanchester combines. But the essential characteristic of the British Motor Industry was still vigorous competition, which found expression in heavy advertising by a large number of rival firms. Some of the biggest expenditures listed were:

Morris . . .	£140,000	Hillman . . .	£49,000
Ford . . .	123,000	Standard . . .	41,000
Vauxhall . . .	107,000	Daimler . . .	25,000
Austin . . .	100,000	Rover . . .	23,000

The advertising of petrol and oil was largely in the hands of a very few fiercely competing organisations. Shell Mex and B.P. are recorded as having spent over £200,000 on press advertising in the year; C. G. Wakefield & Company, £111,000; the Anglo-American Oil Co., £100,000; the Vacuum Oil Company, £57,000, and the National Benzole Company, £46,000. Yet these enormous expenditures on advertising did not protect the leaders from the competition of smaller concerns. Five or six "non-combine" brands of petrol, selling at a slightly lower price, were making effective progress before the war with the aid of advertising on a comparatively modest scale; numerous brands of motor oil were able to hold their own in the market in spite of the tremendous advertising pressure of the big concerns.

Much the same can be said of Tyres. Here Dunlop was easily first, with an expenditure on press advertising of over £100,000. The Goodyear Company spent £40,000 and the India Tyre Company over £18,000; but 13 other advertisers are listed in this field.

## THE ECONOMICS OF ADVERTISING

### (6) *Toilet and Beauty Preparations.*

The advertising of toilet and beauty preparations accounted for £2,800,000 in 1938. Here are some of the main items as recorded by *The Statistical Review*:

		No. of Brands.
Toilet Soaps . . . .	£444,000	20
Toothpastes, etc. . . .	409,000	34
Toilet Creams . . . .	287,000	46
Face Powders . . . .	106,000	22
Perfumes . . . .	81,000	24
Beauty Parlours . . . .	56,000	15
Lipstick and Rouge . . . .	42,000	14
Manicure . . . .	40,000	12
Depilatories . . . .	38,000	20
Deodorants. . . .	19,000	9

I do not propose to analyse these figures in detail. Each group shows the same characteristics as we have found elsewhere, a considerable number of advertisers in keen competition, with a few leaders accounting for the great bulk of the expenditure on advertising. Of course, many large firms advertise brands in more than one of the above divisions, and in some cases in other groups as well, such as Medicines and Household Goods; but an idea of the largest individual expenditures exclusively in the toilet group may be gained from the fact that Colgate-Palmolive-Peet Ltd. are recorded as having spent £184,000; Pond's Extract Company, £123,000; and D. & W. Gibbs Ltd., £83,000.

### (7) *Financial.*

Financial advertising comprises a wide range of different announcements, some of a special or occasional kind, such as notices of new issues and reports of company meetings. It includes also the advertising of banks, building societies, property societies, unit trusts and insurance companies. The banks are not large advertisers, but considerable sums

## THE ADVERTISING OUTPUT: II

are spent on advertising by the other groups, as the following table shows:

		No. of Advertisers.
Building Societies . . .	£213,000	67
Insurance Companies . . .	165,000	47
Building Estates . . .	152,000	68
Unit Trusts . . .	71,000	20

In all these cases the bulk of the advertising was contributed fairly evenly by a large number of firms. The Halifax Building Society was easily first in its group, having spent about £63,000. Woolwich Equitable followed with £20,000; Abbey Road and National with £19,000 each; and the Co-operative Permanent Building Society with £13,000. The Prudential accounted for a quarter of the expenditure on advertising insurance—£41,000; the Pearl for a seventh of the total with £24,000. Among the Building Estates, New Ideal Homesteads spent £22,000 and Costain £9,000. Of £71,000 spent on advertising unit trusts, the largest individual advertiser—the Trust of Insurance Shares—accounted for only £16,000, and was followed by the National Fixed Trust with about £13,000. In all these groups competition was keen and effective, and the home-seeking or investing public could certainly not complain of any lack of wide variety of choice.

### (8) *Entertainment.*

Expenditure on the press advertising of entertainments is divided—rather arbitrarily, it must be admitted—into the following groups:

Sport and Football Pools . . .	£731,000
Radio and Gramophones . . .	542,000
Cinemas and Theatres . . .	358,000
Cameras and Films . . .	164,000
	£1,795,000

Of these groups, the first is too heterogeneous to admit of further analysis. I have no separate figure for



the cost of advertising Football Pools, but it must have accounted for a considerable part of the total under this heading.

There were 59 advertisers of radio sets who spent £339,000 between them. The two largest advertisers, Murphy Radio and Bush Radio, contributed about £75,000 and £56,000 respectively. Radio gramophones were advertised by 18 firms; of the total of £62,000, His Master's Voice accounted for £28,000 and Marconiphone for £21,000. Rental and Relay services, valves, loud speakers and other accessories were also extensively advertised. Only about £25,000 was spent on advertising gramophone records, and 9 advertisers shared this amount.

Cameras and films were advertised by 30 firms, but nearly three-quarters of the total expenditure of £164,000 was due to the two leaders, Kodak (£80,000) and Ilford (£38,000).

### (9) *Smoking.*

The advertising of cigarettes has been severely criticised both on account of the enormous sums spent by the leading firms, and also because of the intense competition which has broken out from time to time between the advertisers of rival brands which, to the ordinary man in the street, seem to have little to distinguish them from one another.<sup>1</sup> The biggest group is the Imperial Tobacco Company, which controls many of the most popular and widely advertised brands. Two members of this group, Will's and Player's, are recorded as having spent between them some £600,000 on press advertising in the year. Yet even this tremendous weight of advertising has at no time secured a complete monopoly for the products of the Imperial Tobacco Company. Newcomers have succeeded in breaking into the market and establishing themselves; and indeed it has usually been the sudden appearance of

<sup>1</sup> Many smokers who during the acute cigarette shortage of 1941-42 were glad to smoke "what they could get" are less convinced than they used to be that there is "really nothing to choose" between the many different brands.

## THE ADVERTISING OUTPUT: II

a fresh competitor that has led to the recurrent outbreaks of the "cigarette war". Of the big concerns outside the Imperial Tobacco Company the largest advertisers in 1938 were Carreras, £214,000; Wix, £152,000; and Godfrey Phillips, £119,000. There are many smaller firms who manage to hold their place in the market on a quality or cut-price appeal.

### (10) *Miscellaneous.*

Finally, in the Miscellaneous group there are several kinds of advertising deserving of special mention. Publishers are recorded as having spent over a million pounds on press advertising in the year. Book publishers are steady and sometimes large advertisers, but the bulk of the expenditure in this field is undoubtedly due to the competitive activities of the newspapers and magazines. Mail Order advertising was growing before the war, and accounted for upwards of £500,000. The advertising of gardening requisites and services reached the respectable total of £386,000; but the expenditure on the advertising of educational services seems somewhat low at £216,000.

This leaves at most only a few hundred thousands of our original total unaccounted for. Perhaps this is not sufficient to embrace the advertising of charities, engineering firms, and the many smaller interests that have found no place in our main groups. Very likely some of the figures I have quoted are over-estimates. I repeat again, however, that accuracy of detail is both impossible on the evidence at present available, and unnecessary for my immediate purpose. It is much to be hoped that better statistical data may one day be made available. It can be collected only from the individual sources or recipients of the advertising output. In the meantime I am deeply indebted to the patient labours of the statisticians without whose work, carried on as a matter of "private enterprise", even this brief and sketchy account of press advertising in the last year before the war would have been impossible.

## THE ECONOMICS OF ADVERTISING

### III. ADVERTISING AND THE COSTS OF DISTRIBUTION.

Much more information about the advertising output would be needed to complete the statistical picture, but unfortunately it is not easy to come by. Such figures as are available of retail sales help us to form some idea of the relation of advertising costs to the total value of sales in the main industries concerned. An article in the *Oxford Bulletin of Statistics*<sup>1</sup> gives estimates of the expenditure on food, drink and tobacco in 1938; and figures of the retail sales of most articles other than food and drink are obtainable from the second Interim Report of the Retail Trade Committee. From these sources, and from the advertising figures given in this chapter, the following table can be constructed. It is subject to various possibilities of error and some important items are missing, including Motoring and Entertainment. However, the groups given cover about two-thirds of the total advertising expenditure listed in the table on p. 83. The figures taken from the report of the Retail Trade Committee are for the year 1939, when retail sales were estimated to be about 2% higher than in 1938. The advertising percentages refer to estimated *total* advertising expenditures by the various groups, and are based upon the assumption that the proportions spent by the different groups on press advertising would hold good for other forms of advertising as well.

*Estimated Advertising Expenditure as a Percentage  
of Total Retail Sales in 1938*

	Total Sales. £ Millions.	Advertising. Percentage.
FOOD . . . . .	1,220	·86
DRINK		
Beer . . . . .	165	·88
Wines and Spirits . . . . .	90	2·80
TOBACCO AND CIGARETTES . . . . .	175	2·79
CLOTHING . . . . .	465	1·88
Carry forward . . . . .	2,115	

<sup>1</sup> Vol. 5, No. 4: March 13, 1943.

## THE ADVERTISING OUTPUT: II

Brought forward . . .	2,115	
HOUSEHOLD SUPPLIES . . .	265	3·89
(Furniture, Textiles, Hardware and Stores.)		
BOOKS, NEWSPAPERS, PERIODICALS, ETC.	120	2·40
DRUGS, ETC. . . . .	50	34·00
(including perfumery, photographic and optical goods).		
	<u>2,550</u>	<u>2·30</u>

Precarious and inexact as these figures are, they help to set the costs of advertising in their true proportion to the total sales of consumption goods. Evidently the sweeping statements of some critics on this subject need to be regarded with caution. If the whole national expenditure on advertising were to be regarded as a net addition to the cost of goods bought by the consumer (and this is certainly not true), the addition would represent only about 2·3%, or 5½d. in the pound on his purchases. Patent medicines and beauty preparations present a striking contrast to all the other groups. I think it probable that the figure of 34% for advertising may be too high. It is not clear from the report of the Retail Trade Committee exactly what items are included in the figure of retail sales for this group, but I have set against it the whole of the advertising of patent medicines and toilet and beauty preparations, as well as that of photographic materials. However, it is certain that advertising in this field represents a far higher proportion of the value of total sales than in any other.

We should like to know also what proportion advertising costs bore to the total costs of distributing goods and services; and what part advertising costs played in the final price to the consumer of various advertised articles. Dr. Borden shows<sup>1</sup> that advertising in America represented in 1935 only about 7% of the total costs involved in effecting distribution of goods and services to consumers.

<sup>1</sup> *Op. cit.*, p. 60 *et seq.*

## THE ECONOMICS OF ADVERTISING

Personal selling cost far more than advertising in almost every case examined, whether in the manufacturing, wholesale or retail trades. It is significant that the only exceptions to this rule among manufacturers were those engaged in the production of drugs and toilet articles, and of cigarettes. In these cases the cost of advertising exceeded that of direct selling. There seems no reason to suppose that if comparable figures were available in this country they would show a very different picture. Advertising, for all its real importance and magnitude, which tend to be exaggerated because of the impact it makes upon the public consciousness, appears to play a relatively minor part, from the point of view of its cost, in the vast business of stimulating demand and securing the effective distribution of goods and services.

If we ask how far advertising enters into the final retail price of different commodities, a reliable answer is still more difficult to get. Most British advertisers are extremely reluctant to give such figures, and in fact it may be doubted whether they are able to do so. In any case, such figures would not in themselves tell us anything very useful, unless they could be set beside other figures showing in each case the proportion of *total* distribution costs in the final selling price. As we have just seen, in most industries advertising is only a small part of total selling costs, and thus it would naturally figure as only a small part of the ultimate selling price. In those cases where advertising plays a major part in total selling costs, the part it plays in the ultimate selling price is naturally much larger; and these are the cases which critics of advertising like to quote. Thus Mr. Courtauld<sup>1</sup> says that there are said to be businesses in the U.S.A. in which advertising accounts for more than half of the total cost of the articles bought by the public. This is possible in special cases where practically the whole selling and distributive costs are attributable to advertising; but in such cases it must be borne in mind that other distributive costs are likely

<sup>1</sup> *The Economic Journal*, April, 1942.

## THE ADVERTISING OUTPUT: II

to be relatively low. In the case of consumer goods marketed through the ordinary trade channels it is evident from the figures given above that advertising cannot possibly account for anything like this proportion of the final selling cost. According to Dr. Weld,<sup>1</sup> the cost of advertising petrol in America is less than two-tenths of a cent per gallon; of cigarettes, a small fraction of a cent per package; of foods in general, not more than 2 to 3% of the retail prices.

### IV. ADVERTISING AND MONOPOLY.

We may conclude this chapter with a brief reference to some of the other problems of advertising on which the figures throw some light. In the first place, they have confirmed in detail the general picture with which we began. Modern advertising is predominantly the advertising of consumption goods; it is predominantly the advertising of manufacturers; it is predominantly the advertising of brands. In each case there are some contrary trends. There was an increasing tendency before the war for advertising to be used for "goodwill" and propaganda purposes; there was extensive advertising by retailers; and co-operative advertising was developing in many industries. But these trends were not sufficiently marked to affect the general picture, and in dealing with the economic questions we can safely disregard them and concentrate upon those issues arising from the advertising by manufacturers of branded consumption goods.

Does our survey throw any light on the question whether advertising tends to promote monopoly in the consumption goods industries? Every brand is in a sense a monopoly, and since advertising unquestionably helps to break up each market among a number of competing brands, to this extent it certainly favours monopolistic tendencies. But does it help one or more big advertisers to secure effective control of each market and to keep competitors out? In no one of the main advertising groups we have

<sup>1</sup> Figures quoted by Mr. Chisholm in *Advertisers' Weekly*.

examined has a *complete* monopoly yet appeared. In every case the picture has proved to be much the same: it has shown us a small number of big firms competing fiercely by advertising, while many smaller firms are apparently able to maintain their position on a much lower rate of expenditure. It looks as though this may be the kind of equilibrium in a given market which an extensive use of advertising tends to bring about. Undoubtedly, in the first place, advertising tends to make the big firms bigger, and leads to a point at which a very few of them come to share the major part of the trade. But there seems to be no evidence that a point is ever reached at which the power of advertising enables the biggest firm or combine to secure the field to itself. On the contrary, it seems clear that when a certain point has been reached the pendulum tends to swing the other way. Sooner or later the demand created by the big advertisers makes it possible for new competitors to come in, competing perhaps on a "cut price" basis. This has certainly happened in the case of Cigarettes, Motor Oils and Household Soaps, where perhaps the nearest approach to complete monopolies had been attained. *How* it sometimes happens can be illustrated by the case of a small draper who opens a shop next door to a big and heavily advertised store. The people attracted to the store will be likely to look in the small man's window too, and if, having lower overheads, he is able to offer better bargains in a limited field, he will thrive. The big advertiser may say that this is unfair; but it is certainly a benefit to the consumer, and on a long view it is probably a good thing for all that advertising should operate in this way to preserve competition in quality and price.

We shall have to return to the question of the influence of advertising costs upon the ultimate price of goods to the consumer. The attention which critics have focussed upon this aspect of the problem may appear excessive in the light of the figures except in the special case of patent medicines and toilet articles. It is a question of con-

siderable practical and theoretical importance, though by no means the only one demanding consideration. For if in fact the consumer is induced to pay more in some cases for the branded article, we still have to inquire whether or not he derives any extra satisfactions from the purchase to balance the extra cost.

Finally, and quite apart from the effects of advertising upon the individual consumer, it is evident that the expenditures we have been reviewing are on a scale sufficient to have some considerable influence upon the whole economy, upon production, employment, and the national income. We have to ask what that influence has been, and whether on balance for good or ill. The figures given in this chapter, though sketchy and imperfect, and though wearisome to compile and perhaps to read, are a necessary basis for all that follows.



## PART TWO: ANALYSIS

### Chapter Six

#### THE QUESTIONS STATED

##### I. IS ADVERTISING "PRODUCTIVE"?

Business men judge advertising by its success or failure in increasing profits. This is not the test we are to apply. There is no need to adopt the assumption, so fashionable to-day in certain quarters, that private profit and public welfare are necessarily incompatible, but we can no longer assume, as the nineteenth century generally assumed, that they are automatically connected. The earlier champions of advertising thought that when they had demonstrated its power to maximise the profits of a business, its benefits to the community required no further demonstration. This followed from the belief that every man's enlightened pursuit of his own self-interest was the best service he could render to society. That belief has long been discarded. The social conscience of to-day demands that every form of private profit-seeking shall be subjected to the test of public service, and very little is presumed in favour of the profit-seeker. Certainly no presumptions are admitted by the critics in favour of advertising. We may accept the judgment of innumerable advertisers, based on many years' experience, that "it pays to advertise"; what we have to consider is whether, in contributing to the profits of the business men who use it, advertising is making any real contribution to the material welfare of the consumer and of the community as a whole. Is it, in fact, "productive" in the economic sense?

We may note, to start with, a very common misunderstanding of what the word "productive" really means. Since the time of Aristotle business activities have been

## THE QUESTIONS STATED

conceived of as divided into the two great branches of "production" on the one hand and "distribution" on the other, and these, in the popular mind, are apt to be regarded as of very unequal value. The farmer who "grows" things and the manufacturer who "makes" things are granted a much superior status to that of the man who merely passes them on through various channels to the consumer. The trader is recognised as having his uses, especially in the complicated economic system of to-day, but he is regarded with suspicion as one who is essentially "unproductive", and whose activities should therefore be kept within the narrowest possible compass. Now, advertising is a part of the machinery of distribution, and it shares in the general suspicion to which all distributive processes are subject. In fact, it bears more than its share of suspicion, for whereas the merchant, the transporter and the retailer of goods can be seen to be at least a necessary evil, the useful functions (if any) which advertising may perform are not so plainly apparent.

It is important at the outset to realise that there is no scientific justification for this distinction between the functions of the producer (in the narrow sense) and the distributor of goods. Marshall puts the matter in the following way:<sup>1</sup>

"Man cannot create material things. . . . When he is said to produce material things, he really only produces *utilities*. . . . It is sometimes said that traders do not produce: that while the cabinet maker produces furniture, the furniture dealer merely sells what is already produced. But there is no scientific foundation for this distinction. They both produce utilities, and neither of them can do more; the furniture dealer moves and rearranges matter so as to make it more serviceable than it was before, and the carpenter can do nothing more. The sailor or the railway-man who carries coal above ground produces it, just as much as the miner who carries it underground; the dealer in fish helps to move on fish from where it is of comparatively little use to where it is of greater use, and the fisherman does no more. It is true that if there are

---

<sup>1</sup> *Principles of Economics*, Book II, Chapter 3.

## THE ECONOMICS OF ADVERTISING

more traders than are necessary there is a waste. But there is also waste if there are two men to a plough which can well be worked by one man; in both cases all those who are at work produce, though they may produce but little."

We see, then, that there can be no presumption against the work of the advertiser or of the professional advertising man on the ground that his activities are different in kind from those of the farmer, the manufacturer or the retailer of goods. The test to be applied is exactly the same: are these activities productive in the broad sense outlined above? Do they create utilities?

Now, the utility of a thing to a person is measured by the extent to which it satisfies his wants; and in attempting to assess the utilities created by advertising we come at once upon a very serious difficulty. For in economic theory wants have always been treated as something more or less fixed and known, and the manufacturer or the merchant has been regarded as creating utilities by "moving and rearranging matter" in relation to these fixed wants. But advertising operates largely the other way round. It creates utilities by moving and rearranging *minds*; or, in other words, by altering wants. I do not think the economists have as yet any theoretical means of distinguishing the utilities created by making available to a man something that he wants, from those created by making him want something that is available to him. The satisfaction resulting from fulfilment of the want is exactly the same in both cases. We shall find this difficulty recurring throughout our discussion of the effects of advertising upon consumer satisfactions; but it will make things easier if we begin by considering the extent to which advertising may help in creating utilities in ways more familiar to economic theory, namely, by making goods more easily available to meet existing wants.

We may begin with its informative function, for it is universally agreed that advertising which helps people to find out how and where they can get things they want is to this extent at least "productive of utilities".

## THE QUESTIONS STATED

### II. INFORMATIVE AND PERSUASIVE ADVERTISING.

Most economists of the classical school regard information in the narrow sense as the only proper function of advertising. Thus Marshall, in his volume on *Industry and Trade*, published in 1919,<sup>1</sup> distinguishes between "constructive" and "combative" advertisements. By constructive advertisement he means measures designed to draw the attention of people to opportunities of buying or selling of which they may be willing to avail themselves, and he instances advertisements regarding particular transactions, such as horses for sale or hire; contracts to be let out, etc. He also regards as constructive measures needed for explaining to people the claim of some new thing which is capable of supplying a great but latent want. But combative, or competitive, advertising he regards as social waste.

The distinction was further elaborated by Mrs. Braithwaite in an article in *The Economic Journal* for March, 1928, reproduced in a book published after her death.<sup>2</sup> She distinguishes between advertising which is merely an alternative means of providing information about goods and whose cost is to be regarded as part of the "true" selling expense, and advertising which aims at increasing or creating demand. The latter she regards as "non-essential" and mainly unproductive. The same view has more recently been expressed by Mr. Samuel Courtauld, who writes:<sup>3</sup> "Advertising, of course, has a legitimate function: to let people know where they can get what they want. Moreover, an advertising campaign to introduce a really valuable commodity, hitherto unknown, to the public, is wholly justifiable, and is a legitimate business expense. But most competitive advertising is a costly national extravagance."

Now it will be seen at once that this conception of the "legitimate" function of advertising involves a complete

<sup>1</sup> *Op. cit.*, p. 304.

<sup>2</sup> *The Distribution of Consumable Goods*, Braithwaite and Dobbs (Routledge, 1932).

<sup>3</sup> *The Economic Journal*, April, 1942.

denial of its claim to perform any necessary or useful role in stimulating the demand for goods and services. This denial springs, as we shall see, from the failure of the classical economists to recognise the need for any stimulation of demand at all. They see that much advertising has a very different purpose from that of merely conveying information, but they are compelled to regard it as "non-essential" and "wasteful"; and they assume that a clear line could be drawn somewhere, which would cut off the unneeded persuasive advertising, while retaining that which performs the useful task of telling the consumer where, and at what prices, he can obtain the things he needs. Mrs. Braithwaite, in the article already quoted, makes her position very clear. She holds that where a commodity is marketed through the ordinary wholesaler-retailer channel, expenditure on advertising is to be regarded *prima facie* as non-essential for the purpose of information, and therefore as no part of "true" selling costs. Similarly, where a commodity is sold direct by the producer to the retailer any expenditure on advertising above what would normally be paid to the wholesaler for his services is to be regarded as a "non-essential" cost.<sup>1</sup>

The informative function of advertising is undoubtedly of great importance. It is essential in modern conditions that someone, either producer, wholesaler or retailer, should undertake the task of informing the consumer about the goods available for his use. There are still a few cases where the man who becomes conscious of a need is left to find out for himself how it can be satisfied. This is very generally the case with professional services, though even doctor and dentist put a brass plate, and sometimes a red

<sup>1</sup> Professor Chamberlin also draws the distinction between informative and persuasive or, as he calls it, "manipulative" advertising. The former is needed to offset the imperfect knowledge of buyers. It is regarded as directed to the satisfaction of existing wants. By spreading information as to the means available for satisfying them it stimulates competition both in price and in the quality of goods. If the information given is truthful, wants are more effectively satisfied; if not, they are less effectively satisfied. Advertising which is not informative but manipulative creates a new scheme of wants by rearranging the buyer's motives. E. H. Chamberlin, *The Theory of Monopolistic Competition*, Harvard University Press. And see Chapter 9, post, and especially the footnote to page 157.

## THE QUESTIONS STATED

lamp, outside their premises. But in business the service of information has come to be recognised normally as one to be performed by the tradesman for the customer. It is necessarily an expensive service, and it does not seem reasonable to regard it as adequately performed when the producer has taken the necessary steps to put his goods on the shelves of the retailers; and has perhaps arranged for a small advertisement in the appropriate classification of the newspapers.<sup>1</sup> The service of information may be regarded as incomplete unless performed in such a way as to ensure that it reaches the people for whom it is intended. Having regard to the enormous number of interests competing for people's attention in these days, some forceful and dramatic means may be required even to give them the bare minimum of information they need.

Thus a practical difficulty at once arises in determining the boundary line between information and persuasion, and there is an air of unreality about the attempted distinction from the point of view both of the advertiser and of the consumer. The advertiser thinks always in terms of persuasion. His object is to sell his goods, and the information given in his advertisements will be much or little according to his judgment of what will most effectively induce the desired action on the part of the consumer.

The latter, too, will find little value in the distinction. What is information to one person will be persuasion to another; and what is information at one time will be persuasion at another. This is easily illustrated by the case of a new product, the advertising of which Marshall regards as particularly constructive and Courtauld as "wholly justifiable". But the function of advertising in informing the public about a new product cannot in practice be separated from its function in creating a demand for it. Advertising enters into the producer's calculations before ever the article is in production. His plans are based upon the sales he hopes to secure with the

<sup>1</sup> This appears to be the test suggested by Mr. Rothschild for the distinction between informative and persuasive advertisements. See "Advertising in War-Time", *Oxford Bulletin of Statistics*, June 6, 1942.

## THE ECONOMICS OF ADVERTISING

aid of advertising. He employs market research to help him judge not only the potential demand, but also the features of the product which are likely to make the strongest appeal to the customer. The conclusions reached will have an important bearing upon the manufacture, marketing and price of the product, and also upon the information given in the advertisements. When they first appear, no doubt they will have a large information value to many who read them. That value will diminish as more and more people become informed; but who can say at what point the persuasive function becomes dominant? Repetition is an essential part of information as well as of persuasion. People forget; they mean to make a note, and omit to do so; then they look out for the advertisement to appear again.

In facing the economic questions about advertising it is necessary to remember that nearly all of it gives some information which otherwise would have to be provided in other ways, and to this extent is productive of utilities. But it appears a mistake to attempt to differentiate between the functions of information and persuasion; to be drawn into a discussion of the value of the information given by this or that class of advertising is to be drawn into a side issue.<sup>1</sup> The essential fact about all commercial advertising is that it is designed to persuade. It is designed primarily not to tell people how they can satisfy their existing wants, but to arouse, stimulate, increase and change their wants. The really important issue in the economic sphere is whether the use of advertising in this aggressive way is productive or wasteful.

### III. ADVERTISING AND THE CONSUMER.

Marshall appears to deny that advertising can serve any useful purpose other than information in the narrow sense, but Mrs. Braithwaite carries the analysis a stage further. She holds that persuasive advertising can itself be divided

<sup>1</sup> The *quality* of the information given by advertising raises ethical questions, the discussion of which is deferred.

## THE QUESTIONS STATED

into two important classes, that which raises prices and that which does not.<sup>1</sup> In the latter case, and especially if the effect of the use of advertisement is to lower the price of the article, she concludes that the result may be beneficial to the consumer. We may accept this distinction as the starting-point of our inquiry. The advocates of advertising have always maintained, as one of their chief arguments, that the use of advertising does lead to lower prices, as the result of the economies it makes possible in production and distribution costs. To this the critics reply that in very many cases the opposite is true; that advertising, by distorting the productive machine, by promoting brand monopolies and wasteful competition, and by misleading the consumer, causes him to pay far more than he need for many of the ordinary articles of consumption.

In the next two chapters the arguments of the defenders and the critics will be examined in some detail. But the question about price is not the only one arising. The champions of advertising are by no means ready to accept Mrs. Braithwaite's conclusion that advertisements which do not result in lower prices are necessarily unproductive and wasteful. It is claimed that they may create utilities for the consumer which more than offset a higher price for the article. This argument is based upon the alleged influence of advertising in bringing about an improvement in the quality of goods and in providing a guarantee that quality once standardised will be maintained. Attention is also drawn to the conveniences to the consumer which were mentioned in Chapter One.

It may be well here to anticipate a little, and to see how the argument proceeds in the case of a branded article which is admittedly higher in price than unadvertised articles of a similar kind. For a clear instance we must turn to the much criticised field of patent medicines. I am not concerned now with the social questions involved in the advertising of patent medicines. There are many reputable products in this field which are not subject to

<sup>1</sup> *Op. cit.*, p. 92 *et seq.*



the serious charges of quackery and deception applied to some. But the complaint is made against nearly all of them that they sell at a relatively high price simple drugs or compounds which could be made up by any chemist at a far lower cost. This is true, but does it follow that the consumer is getting bad value if he pays 6d. for some familiar advertised remedy when the chemist could have supplied him with something composed of the same ingredients for a penny or twopence? Remember that in the economic sense the chemist sells, and the customer buys, not material things but *utilities*. The price paid for, let us say, a packet of Aspro, is paid not merely for a few simple pills; it is paid also for the service that goes with them, and in this service we can distinguish the following ingredients:

(1) *Information*. Enough has already been said on this subject. There is no escaping the fact that the man with a headache must pay in some form for the knowledge of how to get rid of it. The advertising of branded pills is one way of conveying that knowledge; it may or may not be the best way, but the fact that it costs the consumer something is not in itself a conclusive argument against it, for the same is true of the services of a doctor, a chemist, or indeed of any form of health service that might be devised.

(2) *Assurance*. The consumer who is not an expert feels himself to be safeguarded by the reputation of a firm which advertises a branded article. He believes that when he asks for the branded article he gets something of a definite standard upon which he can rely. Is this a purely subjective and illusory satisfaction? The champions of advertising say no. They contend that, for reasons to be discussed in the next chapter, the practice of advertising does lead to a real improvement in the quality of goods. They say that even where the basic ingredients of the branded and the unbranded article are the same, those which go into the branded article are likely to be more severely tested and purified, to be handled under better

## THE QUESTIONS STATED

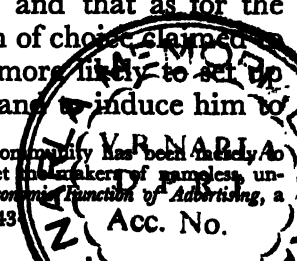
hygienic conditions, and so on. The claim for the superiority of the named over the unnamed article is one of the basic claims made for advertising.<sup>1</sup>

(3) *Convenience*. It is so much easier, as we have seen, to be able to ask in any chemist's shop, almost anywhere in the world, for an article which can be handed over the counter at once without weighing or sorting or counting, the price of which is known, and which can be instantly recognised by its familiar packing and its brand.

(4) *Freedom of Choice*. The existence of many rival brands, each with its own characteristics, enables the customer to make his choice with a freedom impossible in the case of goods sold from bulk. We saw how this comes about, from the example given by Sir Charles Higham and quoted in Chapter One. If the customer is dissatisfied with one brand he can avoid it next time and choose another. He can go on by trial and error until he finds the one that suits him best; stick to it until he gets tired of it, and then change again. This luxury of choice is, say the advocates, only possible in the case of branded goods, and results from the practice of advertising.

It can hardly be denied that these services have some real utility for the consumer. But the critics are uncompromising in their reply. They say that the price paid for them is too high; that the information given by advertising is often grossly misleading and designed to profit the advertiser at the expense of the consumer; that the differentiation of goods for the purposes of advertising is, on the whole, meaningless and wasteful; that reputations have often been created for very inferior goods; that the supposed operation of advertising as a guarantee of quality is illusory and in any case unneeded; and that as for the alleged conveniences and the freedom of choice claimed to result from it, advertising is in fact more likely to set up false values in the consumer's mind, and to induce him to

<sup>1</sup> "One of the best services of advertising to the community has been merely to kill the anonymous product; to drive off the market the makers of nameless, unidentifiable goods": Mr. Cecil Chisholm in *The Economic Function of Advertising*, a pamphlet published by Business Publications Ltd., 1943.



make choices which do not yield him the maximum of real satisfaction.

Thus at every point there is a direct conflict between the advocates and the critics of advertising as to its effects upon the welfare of the consumer. When we turn to the influence of advertising upon the working of the national economy as a whole, we shall find that the same conflict exists.

#### IV. ADVERTISING AND THE NATIONAL ECONOMY.

It is clear that the expenditure of some £80 millions a year on advertising, mainly of a persuasive and competitive kind, must have some considerable effects on production and employment as a whole, and on the level of the national income and the general standard of living. What are these effects?

We shall find that the answer to this question turns mainly upon the influence of advertising on the total demand for goods and services; but there is acute disagreement as to what this influence really is. The champions of advertising claim that by assuring a ready market for new products it brings them more quickly into the field of mass production. It thus raises the standard of living directly by turning what would have been luxuries for the few into ordinary comforts within the reach of the masses. It raises it indirectly by encouraging further inventions and thus widening the field for investment and employment. Moreover, advertising stimulates the "propensity to consume"; it makes people want things which without such a stimulus they would not want. It induces them, therefore, to work harder in order to obtain the means of satisfying their new wants, while the money they earn and spend helps to provide others with employment and the means of satisfying *their* wants. Thus it is claimed that advertising is a useful and indeed an indispensable factor in keeping the wheels of industry turning and the whole economy in going order.

The reply of the critics to these arguments will require

## THE QUESTIONS STATED

for its understanding some study both of the classical economic theory and that of the modern economists who are engaged in building a new theory of "imperfect competition". Briefly, we shall find that for the older school of economists no problem of demand existed. To them the persuasive efforts of competitive advertisers represented an unnecessary and wasteful diversion of resources from production to the creation of private advantages. The younger economists are fully aware of the problem of "deficiency of demand", and of the need of solving it by stimulating consumption. In the search for a solution, however, they have so far given little attention to advertising. They seem, on the whole, inclined to the view that advertising, by its tendency to promote monopoly and to distort the productive machine, may actually be a cause of the deficiency of demand which leads to unemployment. For a cure for the defects of our pre-war system they tend to look towards a severe restriction and control of private enterprise, with its accompaniment of competitive advertising, and to its replacement by some system of "planned" economy such as was glanced at briefly in Chapter One.

In the next two chapters I propose to review as objectively as possible the arguments for and against persuasive advertising which have just been stated. The chapters following will be devoted to a further consideration of the arguments from the different standpoints of the business man and the theoretical economist.

## Chapter Seven

### THE CASE FOR ADVERTISING

#### I. ADVERTISED GOODS ARE CHEAPER.

The claims made under this heading were set forth in a booklet issued some years ago by the Advertising Association.<sup>1</sup> It says:

"The great bulk of advertised goods are demonstrably cheaper, quality for quality, than unadvertised goods for which general distribution is sought. No advertiser could live in the highly competitive arena of modern business if his methods of selling were more costly than those of his rivals. He advertises because he knows that by its aid he secures a definite advantage in reducing distributive costs. He can therefore afford to charge a lower price than his rival for two reasons. In the first place his costs are lower; in the second his turnover is larger. The inducements to reduce prices to the lowest possible level are: first, the desire to get the trade from competitors; and second, to increase the value of goodwill by extending the range of operations. The benefits to the purchasers are obvious."

The claim is that advertising makes price reductions possible firstly because it leads to economies in distribution, and secondly because the larger scale of operations resulting from increased demand brings about economies in production also.

The right approach to the subject undoubtedly is from the side of distribution: advertising is a part of the cost of selling goods. Reference was made in Chapter One to the ever widening gap between the cost of producing goods and the price the consumer has to pay for them. The difference is due to the many expenses incurred between the factory and the point of sale, expenses which include those of preparing the goods for sale, of transport, of holding and financing stocks, and of establishing contact

<sup>1</sup> *Does Advertising Benefit the Consumer?* a pamphlet (undated) published by the Advertising Association about 1930.

## THE CASE FOR ADVERTISING

with potential purchasers. Under modern conditions of highly specialised production these costs cannot in any event be small. Whether or not advertising is employed, someone must undertake each of the tasks involved in making the goods available to the consumer, and the consumer must ultimately pay their cost. The claim made for advertising is that where it is skilfully used as a link in the chain of distribution the total cost of the chain is lower than it would have been without advertising.

The manufacturer who sells through the ordinary trade channels must employ a sales staff to bring his goods to the notice of wholesalers and to induce them to purchase. The wholesaler in turn sells to the retailers, and must generally employ considerable persuasion to induce them to take sufficient stocks and to display them in an attractive way. If there is not a steady demand, considerable expense may be incurred while stocks lie idle at the factory, in the wholesaler's warehouse, or on the retailers' shelves. To reduce this period of waiting either manufacturer or wholesaler will probably employ personal salesmen and printed literature to educate retailers in the uses of the goods and thus equip them to sell to the public. All this is understood to be a necessary part of the "true" cost of distribution. But it is argued that if the producer addresses the ultimate consumer directly by means of advertising, the "true" costs of distribution may be greatly reduced. Plainly, if the public can be induced to demand the goods in the shops, much of the cost of selling to wholesalers and retailers will be cut out. If turnover can be speeded up, holding costs will be reduced, and the middlemen, assured of a ready and speedy sale, may be prepared to handle the goods on smaller profit margins. According to one authority,<sup>1</sup> it is in the possibility of shortening the holding period that the most hopeful way of reducing selling costs, and hence retail prices, seems to lie. It is by rapid and steady turnover in the various stages of

<sup>1</sup> Braithwaite and Dobbs, *op. cit.*, p. 67.

## THE ECONOMICS OF ADVERTISING

distribution that this economy is effected, and the fact that advertising stimulates such turnover constitutes its main claim to bring about savings in the costs of distribution.

On the production side it is claimed that advertising brings about economies by raising the scale of operations and thus enabling the manufacturer to spread his overhead costs. A similar result may follow from the stabilisation of output which can be achieved in many cases by the use of advertising to regulate demand. In many industries demand is seasonal, or liable to violent fluctuations due to fashion or other causes. The manufacturer who looks no further than the wholesaler for his market, and is content to sell to him at competitive prices, has no safeguard against such fluctuations in demand. He may find that the loss of a single large order, due to competition, compels a sudden reduction of output; and though the loss may subsequently be recovered, sharp alternations of activity and slackness are rarely the most economical way of running a factory. It is claimed that the sale of goods by advertising gives the manufacturer control of the machinery of demand, and enables him, within limits, to keep demand at a level which will ensure stability of output and economical working.

Another way in which advertising is said to react upon production is through its influence upon taste and fashion. Standardisation is the ideal of the producer; if he can direct public demand into a few well-defined channels and avoid the need for many variations to meet individual tastes, economies in production will plainly follow. Advertising provides the means by which a considerable degree of uniformity in demand can be ensured, with benefits to the consumer as well as to the producer.

The claim that advertising reduces costs in one or more of these ways has often been advanced as though it were self-evident and of universal application. In recent years, however, a rather more cautious attitude has prevailed. Clearly it is not self-evident that advertising reduces costs; the question is one of evidence. And when evidence is

## THE CASE FOR ADVERTISING

sought it soon becomes apparent that the principle, however general its application, is certainly not universal. There are cases—the proprietary medicines provide some obvious examples—in which the advertised article costs more than the unadvertised substitute. The question cannot be answered by sweeping assertions; it demands a careful examination of the facts in a large number of representative instances. No such scientific inquiry into the effects of advertising on costs of production and distribution has ever been conducted in this country. One may hope that the investigation by the National Institute of Economic and Social Research will yield some definite evidence, and perhaps also point the way to further research. In the meantime, some guidance may be obtained from the statements of business men and from a study of the effects observed to follow generally from raising the scale of operations in production.

There are on record many declarations by business men who have tried advertising and have been convinced of its success in reducing their costs of production or of distribution, or of both. The Post Office, to take the case of a Government monopoly, was very late in deciding to experiment with advertising as a means of expanding the telephone and telegraphic services; but the late Sir Kingsley Wood, under whose administration the experiment was tried, had no doubt of its success. He declared in the House of Commons,<sup>1</sup> in reply to a questioner who suggested that *instead* of spending money on advertising he should reduce the charges made for the telephone service, that the expenditure on publicity had proved a financial advantage to the service and had assisted the rate of reduction. A few years before the war, Messrs. Lyons published a statement revealing the effects advertising had had upon the sale of their Swiss rolls. When the advertising began they were selling 10,000 Swiss rolls a week at one shilling each. Within a short time they were selling over 600,000 a week and the price had come

<sup>1</sup> *Hansard*, May 27, 1935, Col. 745.



down to eightpence. According to a statement by the advertising agents for Palmolive soap, the price of a bar of this soap weighing  $3\frac{1}{2}$  ounces was  $7\frac{1}{2}$ d. in 1919. It has been most extensively and expensively advertised, until it was claimed to be the largest-selling brand of toilet soap in Great Britain. The price of the  $3\frac{1}{2}$ -ounce tablet was reduced by successive stages in the years between the wars until it stood at 3d. instead of  $7\frac{1}{2}$ d.

Examples of this kind could easily be multiplied from the files of the trade papers in the years preceding the war. But too much reliance should not be placed upon individual cases. It is often exceedingly difficult to isolate the effects of advertising from those of other factors involved. However, if attention is directed to the results which follow from an increase in the volume of production, it certainly does seem probable that advertising, which is a major factor in such increases, must often be responsible for considerable savings.

The effects on a business of increased output may vary according to whether it leads merely to a greater utilisation of existing productive capacity, or to an increase of productive capacity by extension of plant and so on. In the former case it seems certain that economies must follow from the spreading of overhead charges, and the extent of the economies will depend upon the relation which fixed charges bear to other costs in the particular business. When increased output leads to expansion of plant it is not certain that economies will follow. In theory there is an "optimum" size for every business; that is to say, the size at which production can be conducted at the lowest cost per unit. Large units are not necessarily more economical than small ones, and the argument very generally used by the advocates of advertising,<sup>1</sup> that an increase in the scale of operations automatically brings economies in production, needs to be treated with caution. So much depends upon the conditions in the particular industry, and in the particular factory, that generalisations

<sup>1</sup> See, for example, the statement by Lord Kemsley quoted on p. 148.

on this subject are dangerous. Nevertheless, two facts of a general nature appear to be beyond dispute.

The first is that in the case of *new* industries advertising has frequently helped them to attain the optimum size much more quickly than would otherwise have been possible. Vacuum-cleaners, safety-razors, gramophones and wireless sets are instances of this kind cited by Mrs. Braithwaite;<sup>1</sup> there are many others, some of which will be mentioned later in this chapter. In these cases advertising has brought the new invention into common use very speedily, and by raising demand to a point at which mass production became possible has led to economies which have greatly reduced the selling price to the consumer.

Secondly, whatever may happen in individual factories, it appears to be established that a rise in the *total* output of manufacturing industry results in decreasing costs per unit of production. Mr. Colin Clark gives some interesting figures showing the relation of labour costs to volume of production between the years 1928 and 1936. They show clearly that as production declined in the great depression average labour cost per unit rose; and that as production recovered there was a rapid fall in average labour cost.<sup>2</sup> In general, then, as we should have expected, increased output means reduced costs of production per unit; and though we cannot claim that this is necessarily true for every individual factory, still it seems reasonable to suppose that the effect of advertising in increasing the output of a business or an industry must in *very many cases* be to reduce the unit cost of production.<sup>3</sup>

<sup>1</sup> *Op. cit.*, p. 90.

<sup>2</sup> *National Income and Outlay*, Macmillan, 1937.

<sup>3</sup> Theoretically the question whether economies in production will follow upon increased output depends upon whether the firm or industry is operating under conditions of increasing, constant, or diminishing returns. But I have not felt tempted to follow the theoretical economists into the highly abstract world of geometrical curves and algebraic equations in which price is analysed. In real life no decision causes the business man more anxiety than the decision to raise the selling price of his goods, and he will frequently make great temporary sacrifices to avoid it, or to postpone it long after a strict consideration of his interests has indicated its necessity. This is particularly the case when a wide demand has been built up by advertising, for then he will fear that the increase in price will have the effect of destroying some of the goodwill which is the capital created by his past expenditure. From this

If it be admitted that the use of advertising has, in fact, frequently led to economies in production and distribution, two further questions arise. The first is whether the economies have been sufficient to offset the cost of the advertising itself—whether, in fact, any real net saving has been effected. The second is whether, assuming a net saving, the benefit of that saving has been passed on to the consumer, or has been retained by the manufacturer and the various middlemen in the form of increased profits. I shall have something to say on these matters in dealing with the arguments of the critics; in the meantime, our concern is with the case for advertising. The second main point is the alleged influence of advertising upon the *quality* of goods offered for sale to the consumer.

## II. ADVERTISED GOODS ARE BETTER.

According to its protagonists, advertising has exercised a beneficial effect upon the quality of the goods advertised in three different ways. In the first place, it is claimed that the need of the manufacturer to find effective “selling arguments” compels him constantly to study the article he sells and to look for means of improving it. It may be admitted that in the short run this restless effort to be “different” leads to small and apparently insignificant variations, the value of which is not always easily apparent. But it is claimed that in the long run numerous small changes do lead to significant improvements—in fact, that this is almost always the way in which standards of quality are raised.<sup>1</sup> Naturally, when one manufacturer has succeeded in making his product more attractive to the

psychological consideration two conclusions seem to follow. The first is that a firm which has used advertising extensively to build goodwill for its products is likely to resist strongly the temptation to raise its prices in circumstances in which, according to theory, this is the action indicated. The second is that advertising is not likely to be used to increase the output of a firm or industry which is subject to diminishing returns; that is to say, when increased output involves a higher unit cost of production. I think both these conclusions would be confirmed by a more extensive study of actual cases; it is the collection of more facts, rather than theoretical analysis, which is needed at this stage to throw light on the influence of advertising on price.

<sup>1</sup> See, for examples of improvement through product differentiation in America, Borden, *op. cit.*, p. 614 *et seq.*

consumer by some successful innovation, he will quickly be followed by his competitors. The general adoption of new variations will constantly tend to restore uniformity, while to escape this and so secure a fresh basis for competitive claims each manufacturer will be compelled once more to seek new improvements. Thus it is claimed that competitive advertising stimulates, and indeed necessitates, a never ending struggle by producers for improvement, and that whatever mistakes and miscalculations may be made in the process, the public in the long run derives a great advantage in the higher quality of the goods offered for its consumption.

Secondly, attention is drawn to the effects which an advertising campaign is calculated to have upon the efficiency of production. This is an aspect of advertising which, according to some writers, is insufficiently appreciated.<sup>1</sup> It is clear that a manufacturer who is about to embark upon an advertising campaign will, if he is wisely guided, begin by asking himself many questions about his product and the potential market for it. Very likely a market research will be undertaken which may bring to light defects in the product hampering its sale, or suggestions for adapting it in ways that will improve its usefulness to the majority of consumers. The manufacturer, faced with the decision to spend large sums on advertising, will almost certainly go through his organisation with a fine comb, searching for weak spots that might prevent full advantage being reaped from the campaign. It is claimed, in fact, that advertising helps to sweep away the cobwebs that accumulate all too easily in the factory and the sales department, and thus promotes efficiency with beneficial effects upon the quality of the product as well as on costs.

The influence of an advertising campaign upon the employees of a business or an industry is also stressed. This is specially noticeable, as Mr. Taylor has pointed out, in the case of a retail establishment where adver-

<sup>1</sup> See, for example, Taylor, *op. cit.*, p. 49 *et seq.*

tising is used to emphasise courteous and efficient service. It is impossible to imagine the assistants in a shop or store not being affected by the constant reiteration of the merits ascribed to them in the advertisements, and not making some effort to live up to the reputation so created for them. But the same thing applies in the factory, and even among the workpeople of a whole industry, whose self-respect and pride in their work are stimulated by seeing in what glowing terms the products of their skill and labour are presented to the public. It is the regular practice in many factories for the management to display copies of the firm's current advertising for the information of the workpeople, and it is stated that this practice has a very good effect in encouraging an interest in the firm's activities and a sense of common pride in its achievements. The stimulus which advertising applies to efficiency in the advertised industry is one of the arguments advanced for the continuation of advertising even in war-time. In a pamphlet issued by the Advertising Association some pointed contrasts are drawn between the spirit prevailing in certain basic industries such as steel and chemicals which advertise and that in others like coal-mining and cotton which do not.<sup>1</sup>

Finally, it is claimed that advertising not only tends to raise the quality of consumers' goods, but also operates as a most effective and important guarantee of quality maintenance. Here again we may quote the Advertising Association : <sup>2</sup>

"A good name is the breath of life to an advertiser. Since he relies to a very great extent on repeat orders for his success . . . it is of vital importance to him to maintain his reputation and that of the goods sold in his name by every possible means. An advertisement is either a fingerpost pointing in the direction of good bargains or a danger signal warning all and sundry to

---

<sup>1</sup> *Advertising in War-time*, The Advertising Association, 1942. According to a representative of the Tass Agency in London, advertising is employed for this purpose in Russia, where State factories advertise as though to say, "Look, this is what we are producing now. Can you do any better?" (*World's Press News*, July, 1942).

<sup>2</sup> *Does Advertising Benefit the Consumer?*

## THE CASE FOR ADVERTISING

do no more business in a given direction. If advertised goods when purchased prove to be up to the promised standard, the buyer has only to insist on being supplied with the same brand again to ensure repetition of a satisfactory transaction; but if the goods do not come up to expectation, the purchaser need never make the mistake of buying goods under that brand again. . . . Preference should be given to articles that are advertised under a brand because behind that brand is the reputation of its owner, who stands to lose very heavily if the public are deceived."

This may be an overstatement of the interest which the manufacturer has in maintaining the quality of articles sold under his brand. It is by no means certain that reductions in quality are impossible when once the reputation of a brand has been established; moreover, the changes which, as we have seen, manufacturers are constantly striving to effect for the sake of selling arguments do not always turn out to be improvements. The efforts of motor-car manufacturers, for example, to produce a "new model" every year lead sometimes to disappointments and heavy losses. But taking the field of branded products as a whole, it is a legitimate claim that the consumer has an assurance that in asking for a known and familiar brand he will always obtain a uniform and standard product, no matter from what retailer he makes his purchase,<sup>1</sup> and this is one of the main arguments upon which the case for advertising as a benefit to the consumer rests.

Closely connected with the argument of quality maintenance is that of the convenience to the consumer of having a wide range of branded and advertised articles to choose from. This argument needs no further elaboration here. It may be summed up in the words of a recent correspondent in *The Times*: "The facilities for easy shopping which branded goods provide are greatly appreciated by the customer. For housewives—and in particular for those who are also wage-earners—the burden of house-keeping is substantially lessened if they can be sure of

<sup>1</sup> Braithwaite and Dobbs, *op. cit.*, p. 114.

## THE ECONOMICS OF ADVERTISING

getting the same brand of tinned food, soap, or whatever it be, everywhere, and at the same price." <sup>1</sup>

### III. ADVERTISING AND THE STANDARD OF LIVING.

No doubt had advertising never been thought of, almost every new invention that the restless mind of man has conceived would ultimately have been brought to birth. The thought of private profit is rarely, if ever, the strongest motive in the mind of the pioneer. What is claimed for advertising is that its powerful aid has made new inventions much more quickly and readily available to the consumer.

Comparison is drawn in this respect between some of the great inventions of earlier ages and those of to-day. The invention of the wheel, for example, was certainly one of the turning-points in human history; yet it must have taken centuries for all mankind to learn to profit from that great innovation. The art of printing itself developed very slowly for many generations before it reached a stage at which it could become the medium of instruction for the masses and incidentally of advertising. Compare these and other cases with the useful inventions of modern times. The bicycle, the motor-car, the typewriter, the refrigerator, the gramophone, wireless, vacuum-cleaners, safety-razors, fountain-pens, and a host of other amenities of modern life spring to mind as examples of new inventions which have been brought within the reach of the average man and woman within an incredibly short time after the first experimental models were produced. It is claimed that advertising has assisted this process in two ways: first, by educating the public to the possibilities and uses of the new article; second, by so stimulating demand that the stage of mass production has followed almost immediately. The long, slow process of development, the gradual reduction in price as demand expanded, the introduction of the new article stage by stage to wider circles of the public—all that has been cut

<sup>1</sup> Leon Zeitlin, in a letter to *The Times*, April 14, 1943. He goes on to wonder whether the customer does not pay too dearly for these comforts; but this is a question to be postponed until we deal with the criticisms of advertising.

or telescoped, mainly by the power of advertising to ensure a ready market and so encourage the entrepreneur to incur the risks of investment in mass-production plant and mass-selling organisation.

Most of the critics recognise this spreading of knowledge about new inventions as a legitimate and "constructive" function of advertising, but they do not always accept its implications. The pioneer, in risking his money, requires some assurance that he will be able to reap the reward of his enterprise. This is given in many cases by the patent law which assures him the exclusive rights in his invention for a limited period. What is often more valuable is the power of advertising to attach the goodwill to his name or his brand and thus to protect him against imitators. Without this aspect of the influence of advertising, the picture is incomplete. The price of growth and development must be paid by someone. It is easy enough to suggest, once some new invention has been successfully marketed, that the public might benefit if all patent rights or brand goodwill were abolished and the field thrown open to free competition. But it is also material to consider whether, without the protection which law and advertising give, the product would ever have reached the stage of being marketed at all.<sup>1</sup>

Advertising, as we have seen, does not and cannot stop when "information" about the new product is more or less complete. It goes on to stimulate repeat orders and maintain the demand. It continues in face of the competition of other new products crowding in to make their claims upon the consumer's purse. Thus advertising is a permanent stimulus to the *total* demand for all kinds of

<sup>1</sup> Marshall cites the case of the typewriter, which is an interesting illustration of this point. When the idea of a typewriter was first conceived, very few people were inclined to take seriously the idea that it could rival the pen in efficiency, and vast expense had to be incurred in demonstrating its working all over the country. This lavish expenditure was well justified in its results to the venturers, and in a broad view of its social results, says Marshall, there is no need to regret that they were able to maintain the price for a long period at a level higher than would have been necessary if a new and perfectly efficient typewriter could have been produced without the need of the heavy initial expenditure on marketing (*Industry and Trade*, note to p. 305). For a statement of the argument against trade-mark rights, see Appendix E to Chamberlin's *Theory of Monopolistic Competition*, *op. cit.*, p. 218.



## THE ECONOMICS OF ADVERTISING

consumption goods, and as such its advocates claim that it exerts a powerful influence upon the volume of investment, production and employment, and upon the national dividend.

To put this in another way, competitive advertising not only induces the consumer to prefer one product to another; it also creates in his mind the desire for more products of many different kinds, so that he is led to work harder or to save less in order to obtain the desired satisfactions. The utility of leisure or of saving is altered in relation to that of other things which demand effort or spending on his part. Whether this is necessarily an advantage from the moral standpoint is a question upon which opinions will probably always differ. It is hardly to be doubted, however, that a sudden withdrawal of the stimulus to exertion now supplied by competitive advertising would lead to a disastrous fall in the effective demand for the products of industry and to a corresponding reduction in output and employment.

The relation of advertising to the problem of unemployment and of the "trade cycle" is a matter of such importance that I shall return to it in a later chapter. Advertising men have not yet realised the full implication for their craft of the new theories of employment of which Lord Keynes was the pioneer. It may be doubted whether the economists themselves have given the matter sufficient attention. Yet it seems plain that in any theory which regards effective demand as the key to the level of employment and prosperity advertising must occupy an important place.

### IV. SUMMARY OF THE CLAIMS FOR ADVERTISING.

We may summarise the claims of persuasive or "combative" advertising to contribute to the welfare of the individual consumer and of the community as follows:

1. Advertised goods are said to be *cheaper* goods, because
  - (a) advertising brings about economies in "true" selling costs,

## THE CASE FOR ADVERTISING

- (b) it raises the scale of production, helps to stabilise output, and promotes standardisation,
  - (c) competition ensures that the benefits of the economies so effected will be passed on to the consumer.
2. Advertised goods are said to be *better* goods, because
- (a) advertisers are compelled for the sake of "selling arguments" constantly to strive for improvements,
  - (b) advertising promotes efficiency in organisation and among the employees of a business or industry,
  - (c) it operates as a guarantee of quality, because the advertiser depends for success mainly on repeat orders, and cannot risk the loss of goodwill that would result from lowering the quality of goods sold under his brand.
3. The existence of a wide range of branded and advertised articles is claimed to be a great convenience to the consumer in shopping, and to give him a real freedom of choice impossible when goods are sold from bulk.
4. It is claimed that advertising has contributed to raise the national income and the standard of living
- (a) by making new inventions more quickly available to the public,
  - (b) by stimulating the total demand for goods and services, and thus encouraging investment and increasing production and employment.

And now it is time to see what the critics of advertising have to say about all this.

## Chapter Eight

### THE CASE AGAINST ADVERTISING

#### I. ADVERTISING LEADS TO HIGHER PRICES.

The economists who criticise competitive advertising do not necessarily oppose a blank denial to the claims which have been outlined above. On the contrary, it is generally agreed that in some cases advertising may have the effects described, especially where a new product is concerned, or where conditions are such that an increase in output by the advertiser results in decreasing the unit cost of production. Moreover, it is recognised that advertising performs necessary functions, especially as a means of information to the consumer. One very severe critic goes so far as to say that "a modern money economy is quite inconceivable without some form of advertising".<sup>1</sup> But, approaching the subject from a different angle altogether from that of the business man, many economists reach conclusions which present a formidable challenge to the general claims of the advocates of advertising. They hold that while it may perform some necessary functions it performs them in a grossly extravagant and wasteful way; that on balance, and looking at the economy as a whole, advertising has precisely the opposite effects to those claimed; that it results in higher prices to the consumer for fewer and worse goods; that it distorts the productive machine in a way opposed to the interest of the community as a whole; and that it misleads the individual consumer so that his money is spent in ways that do not yield him the maximum satisfaction.

These conclusions are reached as the result of a process of economic analysis, but they are also fortified by a plentiful quotation of instances from direct observation in which advertised articles are said to command higher

<sup>1</sup> A. S. J. Baster, *op. cit.*, p. 85.

prices from the consumer than unadvertised articles of identical quality. Business men are well aware that such cases exist, but they are not so familiar with the process of reasoning which has led many of their critics to conclude that they are the truly representative cases. It is important that the argument should be understood.

The ultimate price paid by the consumer for an article is determined by the cost of production and distribution plus normal profits. Selling costs are a necessary part of distribution, and they are incurred, like all other costs, with the objective of increasing profits. But when competitive advertising is undertaken, it is said that an entirely new factor is introduced. The advertiser then seeks to increase his profits, not by adapting production to demand, but by so altering demand as to force it into a shape adapted to production. If the new shape of demand really represented the true desires of consumers, then no criticism could arise, but it is held that this is very unlikely to be the case. For one thing, most advertising is designed, not to encourage the consumer's critical faculties, but to lull them, and to play upon the emotions. Moreover, some products are easy to advertise, while others, for reasons discussed in an earlier chapter, are not. The tendency of advertising is to switch demand in the direction of those things which are easily advertised, and away from those that are not, though the latter may be capable of giving far more real satisfaction to the consumer. Thus it is said that an uneconomic distortion of the productive machine takes place, and what the consumer may gain from greater output and lower price of many non-essential things, he loses from the lower output and higher price of many more essential things.

In support of this argument the critics often point to the case of proprietary foodstuffs. They complain that advertising has induced the public to adopt a more expensive, more elaborate, less healthy and less tasteful diet, and that this has come about not through any desire on

the part of advertisers to destroy the art of cooking and the health of the nation, "but because more money can be made by selling, in branded tins, foods to which no label could be attached without packing. Fresh, simple and healthy foods which go more or less direct from a local producer to the consumer offer no opportunities for mass production, labelling and storing."<sup>1</sup> The writer just quoted refers especially to the high cost of advertised wheat-flakes, which sell at 1s. 3d. a pound, whereas the raw material, wheat, cost only  $\frac{1}{2}$ d. or  $\frac{3}{4}$ d. a pound wholesale before the war. He argues also that proprietary foodstuffs claiming to contain vitamins and other protective or nutritive elements in concentrated form would be unnecessary if the ordinary healthy person were encouraged to eat a properly balanced diet. The influence of advertising upon the habits of the public in matters of health, nutrition and hygiene belongs properly to the social questions about advertising, and cannot be considered here. But the economist is rightly concerned to see that the basic necessities for a sound and well-balanced diet are available to all at prices within the reach of all; and that the productive machine is not so distorted that this ideal becomes impossible of attainment. With the experience of war-time management before them many economists are asking, "Can we not in many fields of basic consumption goods, but especially in this all important field of foodstuffs, get rid of the inducements which lead the public to spend their money on that which is not bread, and concentrate upon wise, *disinterested* advice, and upon making the essentials of a sound diet available to all?"

Among goods of the same kind in every field it is said that advertising induces the consumer to prefer those for which a reputation has been created, and which are sold under a brand. This, as we have seen, is actually one of the claims made for advertising by its defenders; but the critics say that the consumer is led to pay far too high

<sup>1</sup> Denys Thompson, *Voices of Civilisation*, Frederick Muller Ltd., 1943.

## THE CASE AGAINST ADVERTISING

a price for the "reputation" which he buys with the article. Mrs. Braithwaite<sup>1</sup> quotes several instances to show that advertising enables a manufacturer to command a far higher price for his article than that charged for a non-advertised variety, even when the two are practically identical.

Thus a well-known soap-flake is said to have cost £150,000 a year to advertise. Two unadvertised soap-flakes, chemically exactly the same as the advertised product, were sold at much lower prices (one of them lower by more than 50%). Advertisement alone maintained the fiction that the advertised soap-flake was something superfine. Yet advertising was so successful in inducing the public to pay the higher price for it that the product brought in half a million net profit per annum for the advertiser.<sup>2</sup>

Another case quoted is that of a manufacturer of shoes who found that his sales were far below those of a widely advertised brand, though the shoes he made were equal in quality and from ten to fifteen shillings cheaper. When he consulted an advertising expert, he was recommended to add ten shillings to the price of his shoes, and to spend his own portion of the increase on creating a reputation for them.

Even where the advertised article may be admittedly superior to the unadvertised, it is said that the consumer is commonly induced to pay a difference in price out of all proportion to the difference in quality. This results, according to the economists, from the fact that when an article is extensively advertised its price need no longer be limited to the cost of producing and distributing it plus normal profits. The immaterial factor of "reputation" enters into the reckoning, and enables the producer to fix

<sup>1</sup> Braithwaite and Dobbs, *op. cit.*, p. 104.

<sup>2</sup> Is it really certain that the advertised and the unadvertised soap-flakes were "exactly the same"? In this and in many other groups of domestic articles the war-time experience of the housewife tends to confirm the doubts on this subject of equality which were mentioned earlier in the case of cigarettes. A great complaint of housewives, now that they are often compelled to take unbranded soap-flakes, is that they can never be sure of what they are getting, and that there is a very real difference in quality between one purchase and the next.

a price for his product without regard to the ruling market price for unadvertised articles of the same kind.

### II. ADVERTISING PROMOTES MONOPOLY.

Advertising, it is said, results in the creation within each industry of a number of "reputation monopolies" which tend to check free competition in quality and price. The object of the advertiser is generally twofold. He desires to stimulate the "primary" demand for the product with which he is concerned; that is to say, to induce people to want more soap, or shoes, or sealing-wax, or whatever the article may be. But he also desires to stimulate the "selective" demand; that is to say, to induce people to want not merely more shoes or soap or sealing-wax, but the particular brand of these articles which he has to sell. In so far as he is able to concentrate the demand upon his own brand, and to persuade the consumer to "refuse all substitutes", he secures for himself the advantages of a monopoly, and thus protects himself against competition in price. Without advertising, say the critics, the entry into the market of another producer offering a similar article at a lower price would automatically compel the first producer either to lower his own price or to suffer a severe reduction in demand. But advertising checks the operation of this salutary competition, because consumers have been persuaded to believe that the advertised article is something "different".

Monopolists *always*, according to the economic textbooks, seek to maximise profits by restricting output and raising prices, or at least by resisting price reductions. Accordingly the division of the market among a number of semi-monopolies created by advertising results in the public having to pay higher prices than are really necessary for a very large proportion of the goods they buy. The fact that in many cases a reduction in price may actually have taken place is not in itself an answer to this theoretical criticism. The point at issue is not whether prices are in fact higher or lower than they were before the monopoly

## THE CASE AGAINST ADVERTISING

was established, but whether they are higher than they need be, or would have been without advertising. Even if it can be shown that the price of the particular goods advertised has been greatly reduced, that will not necessarily be decisive. For all advertising is ultimately competitive, either within an industry or between different industries, or both; and the consumer may have been induced so to alter his pattern of consumption that economies effected in one direction are more than offset by higher prices elsewhere. Modern economic analysis certainly seems to suggest that in the view of the theoretical critics the consumer is bound on balance to lose by the creation of brand monopolies and by the expenditure of so much competitive effort in the building up of reputation, rather than in seeking ways to lower prices.<sup>1</sup>

Of course, a monopoly established through advertising is never complete. It is always open to attack by other advertisers seeking to establish reputations for rival brands. Moreover, if the brand monopolists presume too far upon the strength of their position, and push prices too high, the opportunity may occur for smaller firms to enter the market and to compete successfully on a cut-price basis. To this extent the consumer is safeguarded, and may find that the remedy against price maintenance by the dominant firms is in his own hands. It would help greatly in estimating the value of this particular criticism of advertising if more facts were available to show at what point in different markets price competition has made itself felt against the big advertisers, and to what extent it has been effective

<sup>1</sup> The theoretical analysis of the results due to the introduction of monopolistic elements by advertising is worked out in several of the books already cited. See, for example, Braithwaite and Dobbs, *op. cit.*, Chapter 7; A. S. J. Baster, *op. cit.*, Chapter 3. A non-technical account of the modern theory of Imperfect or Monopolistic Competition is given by Dr. Borden, *op. cit.*, Chapter 6. Leading books on the subject (difficult for the layman) are those of Professor Chamberlin in America, *The Theory of Monopolistic Competition*, and of Mrs. Joan Robinson in England, *The Economics of Imperfect Competition*. The full analysis leads some critics to the extreme conclusion that the whole system of trade-marks and goodwill advertising is positively harmful to the community, through its effects in increasing the number of monopolistic elements in the economy. This is said to prevent established firms from reaching their optimum output, while new firms find it difficult to enter an industry, and higher prices are the result. Professor Chamberlin has suggested that the abolition of trade-mark rights would have beneficial effects for the community.



in giving the consumer a real choice between advertised brands and cheaper non-advertised alternatives. Our analysis of the pre-war advertising output, in Chapter Five, seemed to show that competition remains a reality in all the markets in which advertising is most powerful, and that in no case has the small man, competing on price, been driven out altogether.

### III. EFFECTS OF NON-PRICE COMPETITION.

In the meantime, the picture presented by the critics of advertising is that of a limited number of dominant firms in each consumer market, competing fiercely with each other, but united in maintaining prices against the consumer. Competition takes the form of enormous advertising outlay, offers of "service" in many different kinds, extended credit, free gifts—anything except an effort to supply the goods to the consumer at a lower price. And the effects of this non-price competition are, say the critics, necessarily cumulative. Advertising expenditures tend constantly to increase, and it becomes more and more difficult for newcomers to win a footing in the market, however good and cheap their products may be.

Moreover, it is argued that competition in non-price forms has adverse effects upon the efficiency of the big firms themselves, at least as judged from the consumer's standpoint. When prices are fixed, the incentive to economy is greatly reduced. And advertising is itself so uncertain that large sums are frequently wasted even by the most experienced advertisers through misjudgment of the public taste or through the use of wrong methods. In recent years much effort has been expended on trying to make advertising more scientific and exact in its results, notably through the development of market research and better knowledge and technique on the part of the advertising practitioners. But it remains to some extent a matter of trial and error, in which errors cannot fail to be expensive. The late Lord Leverhulme is reported to have

summed up the uncertainties of advertising in the remark, "Probably half of every advertising appropriation is wasted, but nobody knows which half".<sup>1</sup>

Connected with the uncertainties of advertising is the tendency to excessive optimism on the part of some producers. It is pointed out that in these days plant expansion does not always follow consumer demand, but leaps ahead of it. Guided by "market surveys" and encouraged by a belief in the almost unlimited power of advertising, factories are built on too large a scale. This perhaps would not matter, from the public standpoint, if the result were merely a loss to the rash investor. But to avoid such loss he may employ the power of advertising to force sales beyond the reasonable saturation point, and in this an economic waste is involved. The same thing may apply where, owing to changes in fashion or new developments, demand for a given product has fallen. All evidence seems to show that advertising cannot arrest or reverse a well-established trend, but it may do much to slow it down; and there are great possibilities of waste in the efforts of manufacturers, Canute-like, to stem the economic tide.<sup>2</sup>

A further objection to advertising, though of an opposite kind, is that it encourages waste through the unnecessary discarding of only half-used goods. In the effort to maintain turnover it is said that advertisers encourage frequent changes of style, and use their advertisements to coax or shame the consumer into frequent replacements. Fashions in dress are an obvious case in point; the annual "new model" in the motor-car industry is another. It is said that the same tendency was apparent before the war in many other fields. "The salesman's demand for style changes means that emphasis is laid all the time on appearance and superficial details."<sup>3</sup> "These activities lead to

<sup>1</sup> Quoted by F. W. Taylor, *op. cit.*, p. 103.

<sup>2</sup> In the middle of the last century large sums were spent on advertising by the makers of earth-closets in an effort to protect their business against the competition of the new water-closet.

<sup>3</sup> Denys Thompson, *op. cit.*, p. 40.

putting novelty before quality, to the production of goods of ephemeral value, to a constant waste of only half-worn-out articles, and finally to the building up of manufacturing programmes upon most unstable bases.”<sup>1</sup>

The years between the two wars provided many examples of fierce advertising competition between rival firms in a single industry, or even between competitive industries. Examples of the former were the cigarette “wars” which broke out from time to time, and that between rival makers of so-called food drinks. An example of the latter was the competition, sometimes acrimonious, between the suppliers of gas and of electricity. The popular newspapers at times carried competition to a point at which hundreds of thousands of pounds were spent annually on canvassing, free gifts, competitions and other forms of advertising. The result was that some of the weaker journals were forced out of the race, and the same tendency to concentration of power in a few hands became apparent in the newspaper industry as had already made itself manifest in the tobacco and other industries where intense competition by advertising had developed.

This tendency to concentration is, according to the critics, the inevitable end to which excessive competition by advertising leads. The big firms who survive, conscious of their heavy overheads and their liability to be undercut in price, become more interested in keeping newcomers out of the market than in reducing their own costs. The most effective way to safeguard the market is to make it too expensive for any newcomer to enter. But this policy can only be effective if profits are maintained by keeping prices up; and so price maintenance rings appear, allotting quotas to each firm within the ring, and restricting output when necessary in order to maintain prices. According to Professor Stanley Jevons, before the war practically every industry of importance was maintaining prices by restricting output, and this he traces back to the development of competition by advertising in place

<sup>1</sup> Mr. Samuel Courtauld in *The Economic Journal*, April, 1942.

## THE CASE AGAINST ADVERTISING

of the efforts of the older entrepreneurs to reduce the costs of production and to obtain a greater volume of business by lowering prices.<sup>1</sup>

### IV. DEFECTS OF ADVERTISING AS A GUIDE TO CONSUMERS.

When they come to consider the effects of advertising upon the judgment of the consumer in making his purchases, the critics are in something of a difficulty, for the tendency of modern economic thought is to accept the consumer's choice as a given fact behind which analysis cannot go. In other words, if the consumer thinks that a certain arrangement of his expenditure gives him the maximum of satisfaction, then so far as the economist is concerned it is so, and criticism passes out of the economic sphere into that of the moralist. But the economists do not altogether abandon this part of the field, for they hold that it is within their province to examine the means by which the consumer's preferences are determined, and to judge whether he has been well or ill informed. Their conclusions are unflattering to a great deal of modern advertising. They hold that it is generally, and often deliberately, uninformative; that it avoids any appeal to rational judgment and addresses itself instead to the emotions; that it is frequently deceptive; and that for these and other reasons it creates false values in the consumer's mind, and induces him to make choices which are unlikely to yield him the maximum of real satisfaction.

It is unnecessary here to quote examples of the kind of advertisement on which the critics base these conclusions. Mr. Baster, Mr. Taylor and Mr. Thompson in the works already cited give numerous illustrations, ranging from the obvious overstatements of many of the patent medicine and cosmetic advertisers, to the merely irrelevant style often employed to build an atmosphere of quality or romance round a humdrum and prosaic article. Often the advertiser makes no attempt either to give information about his product or to offer any reason for its purchase,

<sup>1</sup> Professor Stanley Jevons in a letter to *The Times*, July 24, 1942. For a further discussion of this argument see Chapter Nine.

but relies upon sheer weight of repetition and suggestion to "deprive the consumer of his normal control" and to break down sales resistance.

That these accusations contain a large element of truth will hardly be denied by anyone who reads advertisements. Nor are they likely to be denied by the advertisers themselves, whose reply would be that they employ in their advertisements those methods of appeal which experience and a study of psychology prove to be most effective. Of course, deliberate deception and untruth are condemned by all; how far they have been eliminated from advertising, and what is to be understood by "untruth" in this connexion, is a subject for separate treatment. Meanwhile, so long as the consumer is not deceived as to the qualities of the goods he is pressed to buy, the question whether his ultimate sum of satisfactions is increased or diminished as the result of his yielding to the blandishments of advertising must remain a matter of opinion on which the science of economics can pronounce no final judgment.

The claim that advertising, by building goodwill or reputation, operates as a guarantee of quality is another matter, and is not without challenge. Mrs. Braithwaite<sup>1</sup> offers three rejoinders to this claim; first, that reputations have in fact been created for very inferior goods, and though they have usually been short-lived, they have lasted long enough to enable the manufacturers to reap a considerable profit; second, that the consumer is often a very incompetent judge of quality, unlikely to find out if some widely advertised commodity is below the market standard or made of inferior ingredients; and third, that by dealing with a reliable retailer the consumer would get about as good a guarantee of quality as is supplied by the reputation of the branded article.

#### V. "A WASTE OF NATIONAL RESOURCES."

The criticisms outlined above have led many economists and some business men to the conclusion that competitive

<sup>1</sup> *Op. cit.*, p. 114.

## THE CASE AGAINST ADVERTISING

advertising is on balance a definite hindrance to the effective functioning of the economy and to the material welfare of the community as a whole. Mr. Courtauld expresses this point of view as follows: <sup>1</sup>

“Extravagant advertising and high-pressure salesmanship are directed to selling things to people who do not really want them and are often unable to afford them. . . . The advertising of products in the home market has little national value; it mostly results in the selling of greater numbers of unneeded articles, or in transferring business from one manufacturer to another without increasing its total volume, while the ultimate consumer, who has to pay for the advertising, gets less or inferior products for his money.”

The alleged *wastefulness* of advertising is the point most strongly stressed by the critics who, like Mr. Courtauld, see in advertising a force which causes only half-used articles to be cast aside, and which diverts resources from the production of goods to the production of the intangible quality of “reputation”, which, they say, is of little real value to the consumer. Capital, labour and enterprise, instead of being employed in making more goods for consumption, are devoted to the task of switching demand from one product to another, with no resulting benefits in volume, quality or price. By the distortion of the productive machine and the rigidity in prices which it brings about, advertising is held by many of the critics to be partly responsible for the economic troubles of the inter-war period, and especially for the evils of the trade cycle and of unemployment.

The critics who hold these views are reluctant to accept the argument that advertising, with all its faults, is necessary to dispose of the output of modern mass production. They ask, “Cannot we have the benefits of mass production without advertising?” In the search for an answer to that question they are examining the whole field of distribution and consumption, especially, as we have seen, in the light of our war-time experience of planned economy.

<sup>1</sup> *The Economic Journal*, April, 1942.

It is too soon to say that any precise suggestions have been forthcoming, but the general aim of the critics of advertising is towards a *directed* system of production and distribution in which the energy and drive which they say are now expended in raising the material standards of life for a minority of the population will be diverted to ensuring an adequate standard for all. In reply to the claim that advertising has helped to raise the standard of living they say that it may have done so for the few, but that it has failed to spread these benefits among the masses. It is said that the average standard of living before the war was below the margin of health and decency; of the 10,995,000 families in Great Britain, 7,311,675 (or 66.5%) had an income of less than £3 per week.<sup>1</sup> It is claimed that the system of controls established by the Government in war-time, including rationing, price fixing, the concentration of production and the zoning of distribution, points the way for the future, and holds out a better hope for raising the standards of the average consumer than the pursuit of private profit with its necessary accompaniment of competitive advertising.

Thus our review of the case for and against advertising reveals the fact that at every point there is a direct conflict of opinion between the advocates and the critics. Does the use of advertising tend to lower or to raise the prices of goods? Does it tend to improve or reduce quality? Does it help or hinder the consumer to spend his money wisely? Does it help to raise or lower the national income and the standard of living? Is it a cause of, or a cure for, unemployment? To all these questions contradictory answers are given. Which are correct? The evidence at present available appears insufficient to justify a dogmatic answer. The view taken by each individual will depend largely upon his manner of approach to the problem, and to some extent upon considerations lying outside the sphere of economics. Nevertheless, the problem of what, if anything, is to be done about competitive advertising is of

<sup>1</sup> Denys Thompson, *op. cit.*, p. 102.

## THE CASE AGAINST ADVERTISING

great practical importance for post-war reconstruction. It is worth while to try to see what lies between the defenders and critics of advertising, and whether any basis for a clear judgment is attainable. This attempt will be the subject of the next two chapters.



## Chapter Nine

### POINTS OF VIEW

#### I. THE BUSINESS MAN AND THE ECONOMIST.

In order to understand the conflict of views about advertising it is necessary to pay some attention to the very different ways by which the practical business man and the theoretical economist approach the subject. The great economist Dr. Alfred Marshall gives warning to both of the danger of excessive reliance on their own particular methods. The business man is reminded that the training of practical life often leads to a too rapid generalisation from personal experience, and that common sense and instinct are inadequate guides when one is not dealing with some question of merely local and temporary interest, but is seeking guidance in the construction of a far-reaching policy for the public good. For help in doing that one must rely on the powerful machinery of thought and knowledge that has been gradually built up by past generations—in short, upon economic theory. But theory in turn needs to keep closely in touch with the facts. "There is no scope in economics for long chains of deductive reasoning; . . . they are seldom a sufficient guide for dealing with the heterogeneous materials and the complex and uncertain combinations of the forces of the real world. For that purpose they need to be supplemented by specific experiences, and applied in harmony with, and often in subordination to, a ceaseless study of new facts."<sup>1</sup>

There are welcome signs of an increasing realisation by business men and economists of their need of each other's help in the framing of sound economic policy. The inquiry into the economic effects of advertising to which reference has already been made is one such sign, and it marks a turning-point in the study of advertising, which has

<sup>1</sup> *Principles of Economics*, 8th Edn., Appendix C.

hitherto been conducted—at least as far as this country is concerned—by the “business” economists and the “political” economists on separate lines that showed no prospect whatever of meeting. If this inquiry is to yield the hoped-for fruits it is essential that there should be the widest possible understanding of the equipment and “background” which each party brings to the task.

Let us first look briefly at the point of view of the business man who uses advertising. He generally has a rooted distrust of theorists, and there is some reason for such distrust. His own principles and beliefs are based upon the experience of grappling with problems as they arise. If at some point in his career he was persuaded to experiment with advertising, it was not to test a theory, but to meet some pressing difficulty, probably of the kind indicated in Chapter One. Perhaps he began advertising on a small scale and was satisfied with the results. Raising the stakes, he observed that in time all the results followed which the advocates of advertising predicted: higher output, reduced overheads and increased profits, coupled with successive reductions in the price of his goods to the consumer, improvements in quality, and so on. He is probably very conscious that his chief competitors have had the same experience, and other industrialists in other fields of enterprise confirm the story. He sees, too, that firms which do not advertise speedily fall behind in the race, are reduced to expedients such as tampering with the quality of their goods, and perhaps in the end drop out altogether. This is no imaginary story. Every industry in which advertising is employed can show cases in which just these things have happened. Reviewing the evidence as he sees it, the business man finds it difficult to realise that there can be anything in theoretical arguments which appear to deny the facts of his own experience.

Unfortunately the statements of the economists which come to the business man's notice are often not of a kind to encourage his confidence. From brief newspaper articles and reports it all too often appears that “private profit”

## THE ECONOMICS OF ADVERTISING

in the narrowest and most selfish sense is held to account for all the business man's actions and to justify the contemptuous dismissal of his point of view. To take an example referred to in the last chapter, Professor Stanley Jevons in a recent letter to *The Times* committed himself to the following thumbnail sketch of recent economic history:<sup>1</sup>

"When the classical economists wrote, every industry had many entrepreneurs who competed with one another to reduce the cost of production and obtain a greater volume of business by reducing the price. Then private profit was socially beneficial. Some 70 years ago, manufacturers discovered that advertising was an easier road to profits than inventing ways of lowering costs. Once this was started the practice spread from trade to trade, and competition took the form of more and more elaborate advertising and attractive packing devices. The more the competition the greater became the overhead costs. A later development was the formation of price maintenance rings. These allotted quotas to restrict output in times of depression, and they have been blessed by legislative sanction in agriculture, coal and steel. Before the war practically every industry of importance was maintaining prices by restricting output. This kept antiquated plant in use and is anti-social, being one cause of unemployment."

Naturally, this sweeping imputation upon the motives of business brought some indignant replies, equally dogmatic. Thus Lord Kemsley took up the cudgels for advertising and wrote:<sup>2</sup>

"The principal economic and social advantage of advertising is that it decreases the costs of production, as all skilled users of publicity have proved to their own satisfaction over and over again. In this machine age, production on a small scale must always be costly compared with large-scale production, and advertising makes possible the wide demand which ensures plants of economic size as well as efficient distribution. *All this was generally accepted in the commercial world three decades ago, and the interim has but served to confirm and establish it.*"

This is a fair statement of the familiar case for advertising, but the last sentence, which I have put in italics,

<sup>1</sup> *The Times*, July 24, 1942.

<sup>2</sup> *The Times*, August 13, 1942.

## POINTS OF VIEW

reveals the failure of most business men to appreciate what the economists are getting at. Whatever may have been thought about advertising in the past, the last three decades have seen the rapid growth of a school of thought which holds that the power of advertising has overreached itself and has to-day become anti-social in its effects. The war has greatly stimulated and developed that line of thought, and the arguments of thirty years ago are quite inadequate to deal with it.

There is little profit in the continued restatement of controversial claims and criticisms based on the ideas of the past. A new approach on both sides is needed. The economist must realise that the graphs which he constructs on the assumption that the "maximisation of profits" determines all business decisions may present a very unrealistic picture. While "private interest" is still the reason for most advertising, the private interests concerned are of so far-reaching a character that they must be fitted into any new economic plan which is to have the slightest chance of public acceptance. Here, for example, is a serious statement by a responsible business man of his attitude towards advertising during the war:<sup>1</sup>

"As a minor industrialist, I am responsible for finding employment for some 2,000 people normally. The business has been in existence for 100 years, and on the salaries and wages paid depend about 30 per cent. of the population of this small and isolated town. Consequently the problem of management is always largely concerned with providing steady employment all the year round, and the training up of young labour recruited mainly from the families of our own workers, who have been with us for three or even four generations. To achieve this object and as part of a definite policy, a very large sum of money has been spent for many years on 'national' advertising in order: (1) to spread demand, and therefore production, as evenly as possible over the year: (2) to maintain and develop the 'goodwill' of a nationally recognised brand.

Four hundred of our people are away on war service, and must be provided for when they return. Our power is main-

<sup>1</sup> Mr. A. C. Somervell, Chairman of Somervell Brothers Ltd., Manufacturers of K shoes, in a letter to *The Times*, April 24, 1942.

## THE ECONOMICS OF ADVERTISING

tain them in employment when the war is over is dependent on the preservation of our goodwill. Therefore we must continue to advertise, even in war-time; not wastefully but to that reasonable extent which will protect our workers and the public.

In the Great War, from patriotic but mistaken motives, we stopped advertising almost entirely, with the result that when the slump came the business went through a bad patch; under-employment was rife, and a very large additional advertising expenditure had to be incurred to recover the 'steerage way' which had been lost entirely. Since recovering from that setback our progress and employment record have been steady. Between 1922 and 1939 production and the wage bill trebled. Short time was practically eliminated. Furthermore, as our product is known by many and advertised by prices to the public, any attempt to make increased profits out of the war by profiteering would have had an immediate reaction on our goodwill, and would have been the negation of the policy of the last 20 years.

In consequence, on the formation of the Central Price Regulation Committee, the company, in association with such of its principal competitors as also brand and advertise, did submit its schedules of prices and costings and obtain the committee's approval of them. We had the confidence to take this action because of the protection afforded us by our brand and advertising.

On these facts my company will continue reasonable advertising during the war in order to protect its business, its workers, its retail distributors, and its public. This is the only umbrella under which the responsibilities due to them can be discharged."

This statement is very interesting, because it reveals at once the breadth and the limitation of the business point of view. It contains an argument which to most business men will seem unanswerable, because most business men approach the consideration of advertising in exactly the same way. They consider the benefits which it plainly brings to their own interests and those of the wider circles for which they accept responsibility; if in addition it can be shown beyond argument that the products of the factory can be sold more cheaply to the public with advertising than without advertising, then surely the case is proved.

But the economist remains unsatisfied. He does not

approach the matter in this way at all. His opinion is not based upon the study of individual cases, but on a broad theoretical consideration of the effects of advertising on the national economy as a whole. It may well be that the shoes made in a particular factory are better and cheaper because of advertising than they would be if produced and marketed *under the same conditions* without advertising. This does not answer the fundamental question whether present conditions of production and marketing, which advertising has played so large a part in creating, are in fact such as to ensure the public getting shoes as good and as cheap as could possibly be provided. Nor does the fact that advertising helps to maintain employment in Kendal—or in a dozen other places—answer the question whether advertising is in fact a help or a hindrance to full employment in the country as a whole.

Plainly, business experience is by itself unable to provide answers to questions like these. We have to consider how far economic theory can itself fill the gap.

## II. ADVERTISING IN MODERN ECONOMIC THEORY.

Until quite recently, it was possible for the student of the science of economics to work through the standard text-books without ever coming across a reference to advertising. This was not due to ignorance or neglect on the part of the text-book writers. The classical theories which they expounded simply had no place into which the fact of advertising could be fitted. In seeking to study the complex conditions of real life the scientific inquirer has no choice but to resort to a process of simplification. He begins by taking a certain set of conditions corresponding to a part at least of the observed facts, and proceeds to work out all their implications, carefully eliminating all other factors which would complicate the analysis. This does not mean that he is unaware of the existence of the other factors; simply that he can only work out one set of problems at a time. Later, when he has reached a full understanding of conditions in their simplified form, he

will go back and seek to incorporate the complicating factors one by one. Thus he aims at working steadily towards a theory which may ultimately incorporate all the facts and present a complete picture of that part of life with which his studies are concerned.

Of course, no single department of science is within sight of that ideal state of perfection, and the science of economics, concerned as it is with a large part of the field of human welfare, and with changing human needs and satisfactions, has particularly complex material to deal with. In studying the basic laws determining "value", the classical economists set up the two opposite conceptions of "perfect competition" and "pure monopoly" upon which to build their theories. It was considered that all forms of economic enterprise could be regarded as approximating more or less to one of these extremes; and therefore that the theoretical principles derived from a close analysis of the extremes themselves could be applied with a considerable degree of practical advantage to the intermediate and imperfect conditions found in real life.

The concept of "pure monopoly" is easy to understand. It assumes that in a given market a single producer has complete control over the supplies of a given product, and is therefore able to fix the price at a level that suits his own interests. What price will he fix? The reply of the economist is that he will fix the price at the level which gives him the highest profit. Pursuing his analysis, the economist shows how the price fixed by the monopolist will be related to the costs of manufacture and to the demand for the product at each possible price level; and he reaches the theoretical conclusion that the price will be fixed, because the net return to the monopolist will be greatest, at a point involving some deliberate restriction of supply. Thus, though the theoretical economist is perfectly well aware that pure monopolies are so rare in the real world as to be practically non-existent, yet his analysis of the conditions of pure monopoly enables him to predict that wherever in the real world an approximation to

monopoly exists, there he is likely to find supplies being restricted and prices to the consumer higher than they need be.

The concept of "perfect competition" is the exact antithesis of that of pure monopoly. It is not to be found in the real world, but a rough picture of the conditions applicable to perfect competition can be gained by considering, let us say, the corn exchange in a big market town. There are many sellers and many buyers, none of them large enough or powerful enough to be able to influence the price determined by the free play of demand and supply. The goods offered for sale by the various producers are "homogeneous", that is to say, there is nothing at all to distinguish the product of one farmer from that of another, so that no seller can command a differential price for his goods because of their superior quality or reputation. There are certain theoretical features of perfect competition which do not really apply even in a corn exchange. For example, the theory assumes that every producer can sell the whole of his product at the market price without any need for "persuasion", and that the market price will itself be determined by the point at which supply and demand reach a balance. The consumer is also assumed to know exactly what he wants and exactly how much of a given product at each possible price level will give him the maximum satisfaction.

When economic analysis is applied to this set of assumptions it soon appears that perfect competition, unlike monopoly, is theoretically an ideal state of things. It offers a self-acting, self-regulating mechanism which at all times and in all conditions assures to the consumer the exact quantity of goods required at the lowest possible prices; automatically regulates the operations of producers so that they attain their "optimum" size and output; and keeps their profits at a level which just makes it worth their while to continue production. It is not surprising that theoretical economists are inclined to judge all things by



reference to this impossible ideal of perfect competition; so much so that all deviations from the ideal are described by the opprobrious title of "imperfections of the market". It is to be observed that since perfect competition and pure monopoly represent opposite poles, every deviation from the conditions required for perfect competition must be in the direction of monopoly, and therefore in the direction of restricted output and inflated prices. What deviations from perfect competition are in fact found to exist in real life?

In the first place, goods are not homogeneous. The products of one manufacturer are never quite the same as those of another. There are bound to be variations which will cause consumers to prefer one article to another even if there is no intention on the part of the manufacturers to make them different. In actual practice, for reasons we have discussed, manufacturers have always sought to differentiate their goods so that the consumer will demand not merely soap or cocoa, but the soap or cocoa made by a particular firm. Thus each market is in fact broken up into a number of "reputation monopolies", and price is prevented from finding its level by the free play of supply and demand.

Secondly, the differentiation of goods and other conditions found in the real world make it possible for big producers to exercise a direct influence on prices in the market. The essential condition of perfect competition, that no single producer should be big enough to affect the market by his decisions, is scarcely to be found anywhere to-day.

Thirdly, the assumption that the consumer knows what he wants is far from true. The consumer, in fact, has very imperfect knowledge and is easily influenced and persuaded; so that the demand for any product cannot be regarded as a fixed and known quantity, but is liable to change for reasons quite other than a rise or fall in price.

Finally, the assumption implicit in the classical theory that sale at the market price follows automatically upon

production is remote indeed from the facts of business experience. This assumption is really a part of the assumption of full employment, which until very recently underlay the whole theoretical discussion of the economic effects of advertising. We shall return to this cardinal point in a moment. In the meantime, we may pause here to consider where advertising comes in, and why the economists, if they take notice of it at all, have generally viewed it with such a hostile eye.

### III. ADVERTISING AND "MARKET IMPERFECTIONS".

Obviously, in a state of perfect competition there would be no purpose in persuasive advertising at all. Such advertising as might exist would be limited to the bare minimum necessary to give the consumer information—"directory advertising", as one writer has called it. Since goods would be entirely homogeneous, and since no individual producer could influence price, or increase his output at the current price, nothing could be gained by competitive advertising. The only way by which one producer could gain a competitive advantage would be by finding ways to reduce his costs. In a word, perfect competition means competition in price, and in no other form. The whole of the value theory of the economists appears to be permeated with the conviction that competition in price is alone to be regarded as *certainly* beneficial to the consumer; and that all other forms of competition are to be regarded with suspicion because tending towards the monopolistic exploitation of the consumer.

We can now see plainly why persuasive advertising is viewed with special suspicion. Its use accentuates all the deviations from perfect competition. It encourages the differentiation of goods; it enables big producers to dominate a market; it influences demand in ways that have nothing to do with price and that defy economic analysis. Some economists, like Professor Jevons, lay on advertising the main blame for the development of market imperfections which in our day have made the concept of

perfect competition so remote from reality as to be almost useless as a means of theory-building.

It is certain that this is to assign too large an influence to advertising. It is plain from Professor Jevons's own statement that the economic influences he has seen at work in the past seventy years have been operating quite independently of advertising. He instances agriculture, coal and steel as industries in which monopolistic tendencies have received legislative sanction; but these are all industries in which advertising has played no serious part. In general it is the big staple trades which are most "riddled with price agreements, quotas, or restrictions of one kind or another", and in which the consumer has been dethroned.<sup>1</sup> These are the trades which, as we saw in Chapter One, have been least influenced by advertising, mainly because they presented conditions which we can now see to be the conditions least removed from the ideal of perfect competition.

The truth seems to be that the tendencies of business organisation observed and deplored by many modern economists are the result of profound causes which the classical economists failed to understand. The development of persuasive advertising is not one of these causes, but is itself one of their effects. It represents one of the methods by which business men, without guidance from the economists but by instinctive reaction to the pressures of their environment, have sought to overcome and turn to advantage the "imperfections of the market" which were inherent in the economic system. When those industries in which advertising has been prominent are compared with those in which it has not, it even seems probable that advertising has helped to preserve effective competition, and to guard the throne of the consumer against those tendencies to monopoly and price maintenance rings which have been so much more evident in the great staple trades.

Modern economists have abandoned the concepts of "pure monopoly" and "perfect competition" as a basis

<sup>1</sup> "The Rise of Monopoly", *The Times*, September 18, 1942.

for their theoretical structure, and are attempting to build new theories in which the observed imperfections of the market will be incorporated. This means that for the first time persuasive advertising, among other realities of the business world, has to be fitted into its place in economic theory. The task is a difficult one. Mrs. Robinson, in her book on the *Economics of Imperfect Competition*, has indicated some of the problems, though without attempting to solve them. For the purpose of her analysis she ignores the complications introduced by advertising into the individual demand curve, and treats expenditure on advertising as equivalent to a reduction in price having the same effect on sales. This, of course, is perfectly legitimate as a part of the economist's necessary technique of simplifying problems and studying their different aspects one by one, but Mrs. Robinson is careful to point out that it does not mean that advertising can "really" be ignored; and no theory will be complete which does not account for and explain the "real" functions of advertising.<sup>1</sup>

#### IV. ATTEMPTS TO MEASURE "CONSUMER SATISFACTIONS".

One great difficulty for the economist is connected with the concept of "utility". Utility means the quality which makes commodities desirable to buyers. It cannot be directly assessed, because obviously it is largely subjective; and the method of the older economists, who considered that utilities could be usefully, if only approximately, measured by reference to price, is seen to be unsatisfactory when inducements other than price are

<sup>1</sup> A large part of Professor Chamberlin's book on Monopolistic Competition is devoted to the analysis of advertising and other selling costs. When the results of the theoretical analysis are applied to the practical questions about the effects of advertising the conclusions are indefinite. When comparison is made with the purely fictitious conditions of perfect competition, it seems certain that the introduction of selling costs must lead to higher prices and less efficient production. But when comparison is made with conditions *as they would be without advertising*, no such conclusion is possible. The scale of production may be larger or smaller with advertising than without it, but is much more likely to be larger. Prices may be higher or lower. "Theory can give no more definite answer than this, because there is no more definite answer to be given. The effects of advertising in any particular case depend upon the facts of the case": E. H. Chamberlin, *op. cit.*, p. 167.

constantly held out to the consumer, and appear to play a very large part in determining his decisions. These inducements are very closely connected with the advantages claimed for branded and advertised goods, and the economists have as yet devised no technique for measuring the relative satisfaction derived by the consumer from buying branded as against unbranded goods.

An example will show what this means. In a recent article in the *Advertisers' Weekly*<sup>1</sup> Mr. Rothschild questions the claim that brands and brand advertising offer a guarantee of value for money to the consumer. He writes: "Does not the expert retailer provide a guarantee to the consumer for the goods he sells? When we buy vegetables, fish, flowers, etc., we do not care about brands."

This is true, but it is far from a complete answer. Vegetables, fish and flowers are obviously not capable of standardisation and branding. In consequence, it is generally necessary for the housewife to go to the shops and make her purchases of these perishable commodities by actual inspection and choice. The fact that much of her time has to be spent on this kind of shopping may make it all the more valuable to her that in the grocer's, the chemist's and other shops she can buy branded articles by name with the certainty of getting a known and familiar article of standard quality and price. And this advantage she retains whether she is making her purchases of an "expert" retailer or not. In any part of the country, at home and often abroad,<sup>2</sup> she knows exactly what she is buying, and does not have to trust a retailer whom she has never seen before and may never see again. What is the "utility" of this convenience and security to the housewife, and how is it to be measured in terms of price? Until economic theory is in a position to give an answer to this question it is clear that it is not ready to pronounce

<sup>1</sup> *Advertisers' Weekly*, May 20, 1949.

<sup>2</sup> I remember at a small Italian café in the Alban Hills asking rather doubtfully if they had any tea. "Tea? Yes, *Lyons*," was the proud reply of the proprietor, and a reply that removed all fears.

a final judgment upon at least one aspect of modern advertising.<sup>1</sup>

Those critics who hold that the consumer is induced to pay an excessive price for the "reputation" associated with branded and advertised goods have tentatively suggested various alternatives. Thus Mr. Rothschild in the article just referred to suggests that an alternative solution could be provided by the creation of consumer bodies which could test samples and grade products according to their quality. This might be an excellent thing in itself, but it is certainly not an alternative to advertising. People do not buy things solely because they are satisfied as to their quality, but because they suit their taste. The guarantee given by an independent body might be a useful addition to that provided by the reputation of the manufacturer, but it would not do much to help the consumer in making his choice.

Another proposal we have already glanced at is that the war-time expedient of "utility" goods should be made the basis of a permanent peace-time plan. Most basic necessities would be made to a Government specification and sold at fixed prices. There appear to be some serious difficulties about this plan. Would articles produced by private enterprise be allowed to compete with the standard articles? If so, human nature being what it is, the consumer might prefer the private brands, and the utility articles might fail to command a sufficient sale to secure the desired economies in production. Would the utility articles be

<sup>1</sup> There is of course one possible answer to the question. It would seem to be in complete accordance with the generally accepted principles of economic science to say that the utility of brands to the consumer is to be measured by the prices he is in fact prepared to pay for branded articles as compared with similar articles without the guarantee of the brand. But the economists seem unwilling to apply their own rules in this instance. Their obsession with price leads them to think that something must be wrong if the consumer prefers a branded article when a similar article of equal quality is or could be available at a lower cost; and they conclude that the consumer's real judgment must have been overborne by the subtle and persuasive force of advertising. But perhaps in spite of appearances the consumer is not really deceived by advertising to the extent the critics suppose, and perhaps the price differential which he is willing to pay for many branded and advertised articles really does represent his "real" judgment as to the enhanced satisfactions to be derived from them as compared with unbranded articles. It is not easy to see how theoretical techniques can solve this problem, though field research to collect evidence on "Mass Observation" lines might help.

advertised in competition with the private brands? It seems that they might have to be; but then how would they have solved the problem of advertising costs? It seems more likely that if this plan were adopted the standard articles would have to be given a monopoly—protected against abuse, of course, by the Government specification and controlled price. From the consumer's point of view this would set up a fresh conflict of "utilities". On the one hand he would gain the advantage of a guaranteed and standardised article, produced under economical conditions and sold at a low price. On the other hand he would lose all the advantages of the variety and choice of goods which existed before the war and which would return with free enterprise after the war. By what possible yardstick can economic theory measure the individual consumer's loss against his gain? The answer is that it cannot do so except by the aid of direct evidence. In normal times the only available evidence of the consumer's set of values is that supplied by his actions: and in pre-war days every indication seemed to suggest that he really did attach a very high value to the freedom of choice among a wide variety of products that the practice of branding and advertising assured to him. The war has provided an opportunity for testing that opinion, since the consumer has had the experience of having to do without the familiar varieties of brands, and has seen them replaced in many fields by standard articles under Government guarantees of quality. Here there seems to be an opportunity for the theorists to obtain that "further guidance and support from observation and the direct study of real life" of which Marshall spoke. It seems very desirable that the inquiry which the National Institute of Economic and Social Research is conducting should if possible include a field investigation designed to find out what consumers are thinking about utility goods, and whether or not, and if so why, they hope to see the advertised brands restored again after the war.

Without some such direct evidence it seems to the lay-

man that theoretical speculation on the subject of consumer satisfactions is of little value, and that the claims of theoretical economists to pronounce judgment on advertising as it affects the individual consumer must be viewed with mistrust.

#### V. SCIENTIFIC METHOD AND THE REAL WORLD.

I should like to conclude this chapter with a few general observations on the method of analysis which is now occupying the attention of many leading economists, and which, while it promises to throw much needed light on the working of economic laws, threatens to raise the science of economics to a level of abstraction which would probably both have surprised and perturbed the masters of the classical system. This tendency, as we have seen, results from the effort of the present-day economists to remove as many as possible of the simplifying "assumptions" which governed the earlier study of value. The fewer the assumptions the nearer will the facts studied be to the facts of real life; but the more complicated will be the analysis. It is a matter for real regret, though not for surprise, that the effort to incorporate all the observed facts into their theories has led the economists into a realm of analysis so difficult and abstruse that the ordinary layman can hardly hope to follow them there.

And even so it is still abstractions, not real life, they are studying. Mrs. Joan Robinson, in the book already quoted, points out that there is one basic assumption without which the analysis of value would be impossible. This is the assumption that the individual firm will always arrange its affairs in such a way as to make the largest profits that can be made in the particular situation in which it finds itself. "If individuals act in an erratic way, only statistical methods will serve to discover the laws of economics, and if individuals act in a predictable way, but from a large number of complicated motives, the economist must resign his task to the psychologist. It is the assumption that any individual, in his economic life, will never undertake an



## THE ECONOMICS OF ADVERTISING

action that adds more to his losses than to his gains, and will always undertake an action which adds more to his gains than to his losses, which makes the analysis of value possible.”<sup>1</sup>

Now in real life individuals do often act in an unpredictable way, and even their predictable actions are in fact governed by a large number of complicated motives. Business men are actuated by many influences that cut across the profit motive, and it is very seldom that the reasons for even the simplest business decision can be stated with the kind of precision that economic analysis requires. The basic assumption of the value analysis, as stated by Mrs. Robinson, is a simplification which leaves out of account many of the factors which help to determine the economic life of individual men and of corporations large and small.

It follows from this that the “working model of the actual world” which it is the aim of the economists to construct can never be completely true to life. The scientific method in economics is not exempt from the limitations which apply to the scientific method in every field of inquiry, and which are most clearly seen in the case of the physical sciences, in which the process of analysis has been pushed to its furthest point.<sup>2</sup> Business men are aware of the differences between the world with which they have to grapple and the shadow world in which the scientists conduct their explorations, and they are often too ready to dismiss with impatience the discoveries which the explorers bring forth. But of course this is quite wrong. The scientific method of abstraction and analysis is the proved method by which in nearly every field of inquiry most has been done to improve man’s knowledge and extend his control over nature.

Yet we need to be careful. The doctor at the bedside owes an incalculable debt to the research worker in the

<sup>1</sup> *The Economics of Imperfect Competition*, p. 6.

<sup>2</sup> Readers of Sir A. S. Eddington’s book, *The Nature of the Physical World*, will remember the contrast there drawn between the ordinary world of the senses and the “shadow world” presented by the physicists.

## POINTS OF VIEW

laboratory; but there is more in the art of healing than scientific research, and the man in the laboratory is not necessarily equipped to prescribe for the patient. The artist studies anatomy; but there is more in a painting of the human form than a correct representation of flesh and bone and muscle; if it were not so we should employ the anatomist to paint the picture. There is more in a sunset or a violin concerto than the complicated system of waves and vibrations into which the physicist analyses them. There is a world of values as well as of "value"; and the interpretation in terms of the former of the lessons drawn from a scientific study of the latter is not a task for the scientist as such.

It seems important to emphasise this well-understood fact because in the economic sphere to-day there is a strong tendency to call upon the research worker to prescribe for the patient. And the "model building" of the theoretical economists seems at this stage to have so close a bearing upon the anxious problems of the real world that many of the builders are easily tempted into the expression of moral or political judgments without adequate warning to the listener that in doing so they are stepping from one world into another. Professor Stanley Jevons has provided us with one example;<sup>1</sup> Mrs. Robinson herself gives another. The caution, precision and almost excessive modesty with which she approaches the analysis of monopoly in a scientific work are cast aside when she too ventures upon moral judgments in a letter to *The Times*.<sup>2</sup> Then we are told that "the existence of great concentrations of economic power makes nonsense of democracy. The control of employment, the control of what is to be produced, and even, through the control of prices, the distribution of income between the classes of society, are in the hands of small and solid groups, responsible to no one and subject to no control."

Now, responsible business men are as cautious and exact

<sup>1</sup> In his letter to *The Times*, quoted on p. 148.

<sup>2</sup> On "Democracy and Big Business", *The Times*, October 18, 1943.

## THE ECONOMICS OF ADVERTISING

in their own sphere as the scientist in his. And sweeping judgments like these tend to widen the gulf between the scientist and the business man at a time when the overriding importance of the problems to be solved demands that every effort should be made to close it. The statesman and the business man need every possible help they can get from the analytical economist, and they are foolish indeed if they neglect to use the material which he alone is able to provide. But they cannot and must not resign their own responsibilities. For the world with which they deal is not the world of the laboratory. It is no "working model". It is a world of fantastic complications and contradictions in which no assumptions of any kind are admitted and all generalisations are false. It is the real world, and that of the scientific analyst is not.

## Chapter Ten

### ADVERTISING AND EMPLOYMENT

#### I. THE MODERN THEORY OF EMPLOYMENT.

It is unlikely that suggestions for "planning" the production and consumption of basic necessities would have been put forward had the interests of the individual consumer alone been in question. Those who advocate such schemes are mainly concerned with the problem of unemployment, which has been rightly described as the specific social disease of Western civilisation in our time. Advertising enters into the discussion of unemployment in various ways. As we have seen, there are critics who hold that it is a contributory cause of unemployment, because it favours tendencies resulting in an "uneconomic" organisation of production and distribution, and thus acts as a brake upon the full employment of productive resources. Here again it seems probable that there is a confusion of cause and effect. Advertising is not a cause but a consequence of the failure under our present economic system to attain full employment. How that failure comes about was not at all understood by the older economists, but has recently been explained by a new school of thought under the leadership of Lord Keynes.

According to the modern theory, the level of employment depends upon two factors, the demand for consumption goods and the demand for capital goods, or investment. All incomes are derived from the production of one or other of these two groups of goods (using the term "consumption goods" in the broadest sense to cover services of every kind). Unemployment occurs when there is a deficiency of effective demand—that is to say, when all the incomes earned by people in production are not devoted either (a) to the purchase of goods for consumption, or (b) to investment in the further production of

capital goods. Now people do not spend all their incomes; they wish to save, and this saving necessarily depletes the demand for consumption goods. In order that resources should be continuously employed at full stretch it is necessary that new investment in the production of capital goods should be sufficient to employ all the money which people wish to save out of their incomes. If people in the aggregate wish to save more than entrepreneurs are ready to invest in the production of capital goods, then there will be a reduction in the activity of the consumption industries which will not be balanced by increased activity in the investment industries. Consequently there will be a reduction in the total of incomes earned, and this will bring about a fall in total savings. The theory explains that the reduction will be such that the total of savings will always be exactly equal to the total of investment. It is useless for the community *as a whole* to try to save more money than can be employed at any given time for investment. Unless the demand for investment increases, an individual can only save more at the expense of a loss of income to someone else.

The theory also explains why in normal times under a system of free enterprise the equilibrium between savings and investment will always occur at a level below that at which all the productive resources of the country are fully employed. The approach to full employment sets up disturbances which prevent it ever being attained in normal times. As employment increases under the influence of a "boom" in trade, wages rise, and the demand for money drives up the rate of interest, and this in turn discourages investment. Many other factors are, of course, involved, but it is sufficient for our purposes to note the fact that every period of activity in trade contains the principles which in time will bring about its reversal. Fortunately the converse is also true, so that every depression, when it has run its course, will lead to an upturn again. This is the famous trade cycle, of which so much has recently been heard.

The wealthier the community, the greater is likely to be the disparity at any given time between its potential resources and the resources actually employed—i.e. the greater is likely to be its total of unemployment. This is because (a) in a wealthy community a smaller proportion of total incomes is likely to be spent on consumption goods, and (b) the existing capital equipment is likely to be large, so that the opportunities for profitable investment are less.

A full description of the modern theory of employment would be quite outside the scope of this book even were I competent to attempt it.<sup>1</sup> But two points seem to be of cardinal importance for an understanding of the functions of advertising in our economic system. They are the following :

1. Unemployment is not an occasional and abnormal feature of our system, but an inevitable and permanent feature so long as the system works without interference ;
2. The basic cause of unemployment is *deficiency of demand* in the sense already explained.

It follows from these two facts, firstly, that economic criticisms of advertising which are based upon the assumption of full employment are based upon a false premise ; secondly, that the problem of unemployment can be attacked only in one of two ways : by an increase in the demand for consumption goods (or, as Lord Keynes calls it, the "propensity to consume"), or by an increase in investment.

## II. THE DEFICIENCY OF DEMAND.

Lord Keynes points out that the classical economists were unaware of the problem of the deficiency of demand. This explains, among other things, why the greatest of

<sup>1</sup> The theory is expounded by Lord Keynes in *The General Theory of Employment, Interest and Money*, Macmillan, 1936. Readers unfamiliar with economic theory will find the subject explained without technicalities in Mrs. Joan Robinson's *Introduction to the Theory of Employment*, Macmillan, 1939.

them were unable to see any reason for the growth of competitive advertising other than the inordinate greed of business men, or to see in its effects anything other than a useless waste of resources. Plainly, if all the productive resources of the country are, or could be, usefully employed in producing goods for immediate or future consumption, then the diversion of some of those resources to creating private advantages would be a waste. But the Keynes theory relieves us from any necessity of branding all the great business-builders of the past century as selfish and anti-social profit-seekers. It also explains the apparent paradox involved in the growth of a vast system of business activity in which the economists could detect no social advantage whatever. The history of advertising, as described in Chapter One, now appears, in the light of the new understanding of the causes of unemployment, as the history of the attempt by the producers of consumption goods to overcome the "deficiency of effective demand" which continually threatened the success of their efforts at mass production, and the full employment of their constantly increasing resources.

In the great days of the last century the working of this economic law was obscured by specially favourable conditions. The growth of population; the spreading downwards of a higher standard of living; the opening up of new countries; all these and other factors tended both to raise the "propensity to consume" and to keep investment at a high level. It is only in our own days that the full impact of the deficiency of demand has been felt, and that a wealthy and a nearly stationary population has had to face the paradox of poverty in the midst of plenty.

Thus, while the basic assumption upon which the classical economists rested their judgment of advertising was never really true, it is only in very recent times that a new approach has been attempted. So far as I am aware, the only economist who has drawn attention to the implications for advertising of the removal of the

assumption of full employment is Mr. Rothschild of Glasgow University. Writing in *The Economic Journal*,<sup>1</sup> he points out that the alternative to advertising may not be, as the older economists assumed, increased production of consumption or capital goods, but idleness of the resources involved. And this is not all; for the cessation of advertising would mean the withdrawal of one of the strongest incentives to consumption, and thus a weakening of the "propensity to consume" which, as we have seen, is one of the buttresses of employment. What is the effect of advertising on the total demand for consumption goods? Is any quantitative measurement of this effect possible? These are questions to which economists have paid little attention as yet. In so far as they have studied advertising at all they have been mainly preoccupied with its influence upon costs and prices. It seems clear, however, that in the light of the new theory of employment the most important economic questions about advertising are those concerning its effects upon demand, including its influence upon investment.

Mr. Rothschild further points out that advertising is itself a form of investment. The money spent upon advertisement gives employment directly, and through what is known as the "multiplying" effect this expenditure stimulates demand for consumption goods and so increases employment in the consumption industries. All investment has this effect; but advertising as a form of investment has a very peculiar quality—it stimulates demand without doing anything to increase the stock of capital goods. Thus it is immune from the drawback of nearly all other forms of investment, which by increasing capital equipment tend to narrow the field for future investment, and so help to bring every period of business activity to an end.

The 80 millions of pounds spent annually before the war on advertising must then have had a real effect in mitigating the evil of unemployment. The *quantitative*

<sup>1</sup> "A Note on Advertising", *The Economic Journal*, April, 1942.



effect, like the quantitative effect of advertising on the propensity to consume, remains to be studied.

### III. WIDER ISSUES.

Where has this discussion so far led us? It certainly appears that a study of the problem of deficiency of demand may prove the key to a reconciliation between what appeared at the beginning of the last chapter to be two irreconcilables—the practical experience of the business man and economic theory. Deficiency of demand is a basic problem of our present economic system. Advertising attacks that problem in *both* the ways by which, as we have seen, it can be tackled; it stimulates the propensity to consume and is itself a form of investment.

It seems to follow from this that the function of advertising in the present economy is explained; but we must beware of jumping to a further conclusion, that the case for advertising is proved. To this two objections might be raised. In the first place, it is open to the critics to contend that advertising may on balance actually accentuate the evil it attempts to cure. This would be so if the effects of advertising in promoting “monopolistic” elements in the economy—leading to rigidity of prices, firms failing to reach their optimum output, and so on—were found actually to increase the deficiency of demand more than the expenditure on advertising as investment and its direct stimulus to consumption diminished it. This seems very unlikely, but it can only be proved or disproved by much more evidence of the effects of advertising on demand than has yet been made available.

The second objection is much more important. It may be argued that advertising is no more than a partial and unsatisfactory palliative in an economic system which demands radical changes. “The waste lies not in the advertisements . . . but in the fact that we still have an economic system which constantly allows productive resources to lie idle. The criticisms which are levelled against useless public works and advertising should logic-

ally be directed against the economic system which forces us not only to accept them, but even to consider them as desirable.”<sup>1</sup> If, in fact, the nettles in the economic garden could be destroyed, the dock-leaf would be unneeded as well as ugly, and could be torn up too. These are the lines on which many economists are thinking to-day. They believe that the problem of the deficiency of demand can be overcome by new and radical methods which will put an end at the same time to competitive commercial advertising as we knew it before the war.

Obviously this raises issues much wider than those with which we have hitherto been concerned: issues into which we cannot enter fully here. But since the plans resulting from present ideas may have a far-reaching effect on the future of advertising, it is very desirable that those concerned about advertising should understand them.

It seems to the present writer that all serious suggestions for a “planned economy” boil down to a proposal for a direct attack upon the deficiency of demand by Government action directed (1) to increasing the “propensity to consume”, and (2) to stimulating and regulating investment. Consumption is to be increased by the establishment of a “national minimum” of which the Beveridge Plan is regarded only as a foretaste and a beginning. It is obvious that the best and quickest way to increase consumption in a mature economy is to spread incomes as widely as possible. A man with an income of £10,000 a year will probably save a large proportion of it, while ten men with incomes of £100 a year each will be unable to buy all the things they need. If half the rich man’s income is divided among the other ten, then less of the total will be saved, and more will be spent each year on consumption goods. A few years ago taxation on a scale necessary to achieve this result would, in normal times, have been regarded as confiscation, and dire results to industry would have been threatened as the consequence of such an attack upon enterprise. To-day we can see that, apart altogether

<sup>1</sup> Rothschild, *op. cit.*

from motives of humanity, deliberate redistribution of incomes may be a necessary means of keeping industry at full activity, and a condition, therefore, of future profits.<sup>1</sup>

But the problem of investment is regarded by most economists as the main key to the future maintenance of business activity. Many suggestions have been put forward, but it seems to be the opinion of the more advanced thinkers that it will be necessary for the Government to secure control over a very much larger part of the field of potential investment than that represented by what are commonly called "public works". It is in the sphere of the production of consumption goods that these thinkers find scope for Government action designed at once to give effect to the policy of the "national minimum", and at the same time to open up the widest possibilities of investment. This is the true basis of the schemes for planned consumption and planned production to which we have already referred.

### IV. PROBLEMS OF A PLANNED ECONOMY.

The problems before the planners are many, and some of them are political rather than purely economic in character. Two great dangers of a controlled economy are: (1) that planning on a national scale may intensify the trend towards economic nationalism which was one of the world's greatest troubles before the war, and indeed was one of the causes of the war; and (2) that it may involve excessive interference with the freedom and the standard of living of the ordinary citizen.

In days gone by, consumers in nearly every country in the world were glad to avail themselves of famous British brands and of the services provided by British shipping,

<sup>1</sup> According to Mr. Colin Clark, large private incomes had already ceased before the war to count as a source of saving, and increased taxation could only lead to lowered consumption on the part of the rich or an increasing rate of *de-cumulation* (*National Income and Outlay*, p. 191). On the other hand, the undistributed profits of companies accounted for a very large and, as some (including apparently Lord Keynes) think, an excessive volume of saving. It seems possible that "sound finance", when carried to the extremes upon which many business men pride themselves, may be a cause of diminished profits and of unemployment.

banking, insurance and so on. Even though in many countries the attempt at economic self-sufficiency has restricted the scope for British exports, visible and invisible, still the goodwill attaching to these goods and services represented up to the war a national asset of incalculable value. The welcome given to British goods abroad was in part the result of the old free trade policy of Britain, who accepted the goods of all the world in exchange; in part it was due to the fact that British exports were the result of private enterprise, carrying no suspicion of national policy or attempts at economic infiltration. It seems doubtful if "national" brands would receive the same welcome abroad as the old familiar private brands; or if services of shipping and insurance controlled and pushed by "national corporations" in this country would be allowed the same freedom of action as was accorded to the privately owned services competing on equal terms for private profit. Yet a "planned economy" means that these are the lines on which a large part of our export trade in the future would have to be conducted. Controlled direction and stimulation of exports; control of imports; control over international capital movements; public operation of transport, power, fuel, etc.; control over the production of many articles of necessity; rationing of investment in private industry; control of prices and of wages; limitation of profits; control and direction of labour—these are some of the implications of economic planning.<sup>1</sup> It seems clear that unless planning can be carried into the international sphere, under the influence of a new international spirit, there are grave dangers in such a programme for this country's position in world markets, as well as for the whole system of international relationships based on freedom of intercourse for which this country has always stood.

The ordinary consumer may be more directly influenced by the threat to his freedom and his standard of living. The provision of a range of necessities at controlled prices

<sup>1</sup> See the articles by various writers reproduced in a pamphlet issued by The Times Publishing Company under the heading *Full Employment*, April, 1943.

may seem to many an inadequate exchange, not only for the loss of the old private brands, but also for the control of imports under a system of priorities which might involve the permanent exclusion of some of the luxuries to which they were accustomed before the war. Moreover, control of prices involves control of wages, and worse still from the worker's point of view, the perpetuation in peace-time of the war-time system by which he may be "directed" to live and work wherever the Government requires his services. Thus one step in control must inevitably lead to others, and it is not easy to see where the process, once begun, could be halted. It is all very well for a critic of advertising to say that production and consumption must be co-ordinated "*by such means as the U.S.S.R. is described as using*",<sup>1</sup> but the cautious and practical Englishman will want to know what these means are, and what effects their application to this country might be likely to have upon men and women long accustomed not only to political freedom, but also to freedom in the disposal of their labour and in the spending of their incomes.

There is a further difficulty. The idea of planned consumption involves an inversion of the natural process by which, according to the best opinion, all economic progress has been achieved. It involves the assumption that man's wants determine his activities; whereas the truth is exactly the opposite. "Although it is man's wants in the earliest stages of his development that give rise to his activities, yet afterwards each new step upward is to be regarded as the development of new activities giving rise to new wants, rather than of new wants giving rise to new activities."<sup>2</sup> Thus the proposition that "planned consumption must precede and condition planned production", plausible as it sounds, conceals a dangerous fallacy. To lay out a plan of consumption based upon present wants, and to organise all production to supply those wants on a scale that will fully employ all existing resources, would

<sup>1</sup> Denys Thompson, *op. cit.*, p. 167. My italics.

<sup>2</sup> Marshall, *Principles of Economics*, 8th Edn., p. 89.

be to reduce society to a static condition and gravely imperil any possibility of further progress.

Suppose such a plan had been carried out after the last war, and suppose that it had really succeeded in fully employing all productive resources in meeting the wants then known and felt by the people. The plan obviously would not have included broadcasting, for broadcasting had not been started and the new "wants" which have resulted from its development, and which have affected so many departments of life, did not then exist and could not have been foreseen. Nor could such a plan have provided for the new "wants" associated with rayon, or with plastics, or with a score of other new inventions. It is difficult to see how these inventions could ever have been developed at all under a plan of consumption laid down in 1919, for remember that by hypothesis that plan would already have been absorbing all the productive resources of the community. Any system of planned economy must, then, either reduce society to a static condition or it must find a way to provide for the continued encouragement of enterprise and initiative, which means that it must itself be subject to constant change as the restless activity of man leads to the development of ever new needs and desires. But a system planned to give the fullest possible encouragement to dynamic change and evolution might turn out in the end to be not so very unlike the system under which we now live.

Thus there are many problems associated with planning.<sup>1</sup> They are mentioned here only because of the relation they bear to the questions about advertising we have been discussing. It is plain that no inquiry into the economic effects of advertising can be expected to yield results that will find universal acceptance. Persuasive advertising is an essential part of an economic system which to-day is under strong attack. The views men hold about it will inevitably be coloured by their views about the system. Some are already convinced that the ills from which free

<sup>1</sup> The relation of planning to freedom is further discussed in the next chapter.

enterprise is suffering are mortal; they are in a hurry to apply the death-blow and to substitute a full scheme of State socialism. To men holding such views the debate about advertising must be waste of time. But to men who recognise the immense advantages which the system of free enterprise has conferred on this country, and who are anxious to cure its sickness with the least possible change, the discussion is of very great importance. For good or ill persuasive advertising has become a conspicuous feature of business activity in every country where a system of free enterprise has held sway. What has been its contribution to the wealth and welfare of the community? Has it in fact been a parasitic growth tending gradually to choke the life out of free competition, and to leave only the dead trunk of monopoly, with its accompaniment of restrictive agreements aimed at maintaining private profits at the expense of the consumer? Or has it served as a corrective to the weaknesses inherent in a private enterprise system, enabling the consumer to enjoy, as he would not otherwise have been able to enjoy, the benefits of mass production and the new amenities of life which private enterprise has continually brought forth?

In this and the preceding chapters I have tried to indicate the main questions which need to be answered if the true economic functions of advertising are to be correctly appraised. Before attempting a final review it may be helpful to consider in a little more detail the results of the recent inquiry conducted by Dr. Borden in America, which has been frequently referred to in the preceding pages.

### V. THE BORDEN INQUIRY IN AMERICA.

In the United States the controversy about advertising rages even more fiercely than in this country, and greater efforts have been made to collect evidence on the economic questions. The results of the latest and most important inquiry are contained in a book<sup>1</sup> by Dr. Borden giving

<sup>1</sup> *The Economic Effects of Advertising*, by Neil H. Borden (Richard D. Irwin Inc., Chicago, 1942).

the report of a five-years' study conducted under his direction by the Harvard Business School. The main part of Dr. Borden's book consists of reports of detailed inquiries into the results of advertising upon a number of carefully chosen industries producing consumer goods. The commodities chosen for analysis represent a good sample of market conditions; they include some, like cigarettes, dentifrices and refrigerators, which lend themselves easily to differentiation and branding; and others, like sugar, domestic sheeting, oranges, walnuts and lettuce, which do not. The material which Dr. Borden has assembled about the effects of advertising on these and other products represents by far the largest body of evidence ever gathered about advertising. The results, in view of the effort expended, may appear to be somewhat meagre; but this will not surprise business men who are aware of the difficulties of connecting cause and effect in business matters, and of presenting the results in statistical form.

Dr. Borden was guided in his factual research by an analysis of the questions about advertising suggested by modern economic theory. The chapter of his book in which the results of this analysis are set out contains a most valuable summary of the economic questions, and has been of much help to the present writer. The "findings" of the study, presented under the headings of the effect of advertising on Demand, on Costs of Production and Distribution, on Price, on Quality and Range of Merchandise, on Consumer Choice, on Investment and the Level of National Income, and on Business Cycles, are highly instructive and valuable, though on many of these points the evidence proved insufficient to justify definite conclusions. Moreover, Dr. Borden's book contains much useful information and many wise suggestions on the dangers in the present-day use of advertising and the perils to be avoided.

Unfortunately, from the point of view of a student of the economics of advertising in this country, the book has one defect far more serious than the indecisive character



of much of the evidence. The Advisory Committee who, with Dr. Borden, planned the study decided that it should be limited to the effects of advertising "within the framework of a capitalistic system of free enterprise". This means a system in which consumers are free to decide how they will spend their incomes and in which business men are free to decide the direction and scope of their activities and free to set prices for their goods and services, in which labour is free to bargain collectively or individually, and in which investors are free to place their funds in whatever enterprises they see fit.

Now, as we have seen, it is precisely these freedoms which many modern economists are challenging, and which, as exercised with the aid of advertising, they hold to be largely responsible for the partial breakdown of our economic system, for the waste of national resources, and for unemployment. When, therefore, Dr. Borden's Advisory Committee rules out of the debate any criticisms of advertising carrying the implication that some other form of organisation would be preferable to one based on freedom of consumer choice and freedom of enterprise, it limits the scope of its inquiry in a way that largely destroys its value for a reader in England. It may still be possible in America to regard the "capitalistic system of free enterprise" as something fixed and beyond argument. In this country, with its recent experience of controls, of concentration of industry, of "direction" of labour, and of utility goods, it is not so. Advertising in Britain is criticised not only "within" the framework of the system of free enterprise, but also as being an essential part of that system. Business men will do well to face the fact that an inquiry into advertising conducted by present-day economists would lose all value and almost all meaning if it were bound by the restrictions imposed on the Borden study. There must be complete freedom, first in finding the facts, and secondly in following the argument. To this principle it should only be necessary to add one qualification. Business is not a matter of purely

scientific or academic interest. It affects the lives and welfare of everybody. Interference with existing practices which have grown and developed over a long period of years is therefore not to be lightly undertaken. The would-be surgeon should be *quite* sure before he operates that he knows why and how the organ which he proposes to remove has grown, and what function it fulfils in the body. Even if he feels convinced that the patient will be better off without it, he should reflect that the patient himself may have different views, and that this is a matter on which he is entitled to be consulted.

## Chapter Eleven

### TOWARDS CONCLUSIONS

#### I. MAINLY PERSONAL.

The economic questions we have been discussing are evidently no mere technical questions which can be answered to everybody's satisfaction when the right means of analysis have been discovered and applied. On the contrary, they raise fundamental issues upon which division of opinion is likely to remain both deep and wide. Men will never agree upon what is the perfect balance between individual liberty and State control, whether in economic or political matters. Commercial advertising as we know it to-day is so bound up with the system of competitive enterprise for private profit, and it touches so many aspects of social life, that the judgment of each individual is bound to be affected by the sense of values deriving from his natural bent of mind, his education, his interests and his experience. In short, the bias of the inquirer, which on this subject will be determined by his whole mental outlook, has to be taken into account. In the preceding chapters I have attempted to set out and to analyse the case for and against advertising as objectively as possible. No doubt my own bias has been plainly apparent, but in this concluding chapter, at the risk of introducing what may appear an unduly personal note, it seems right to state more explicitly what that bias is.

My approach to the subject of advertising is not that of a dispassionate scientific inquirer, nor that of an advertiser or advertising expert. It is that of a newspaper man, profoundly convinced of the vital importance of a free press to the future of our country. To be truly free and able to discharge its duties without fear or favour the press must be financially independent, and not merely independent but reasonably prosperous. To be prosperous it must have

## TOWARDS CONCLUSIONS

revenue from advertisements; and that revenue must flow, not from any one central source, but through many tributaries rising in areas so scattered that there is no risk of all being dammed at once. Moreover, none of these tributaries should be individually large enough to exercise any important influence on the flow of the stream. This means *private enterprise*, and can mean nothing else. I do not believe that the freedom of the press, or political freedom in any real sense understandable by Englishmen, could survive the overthrow of the economic system of private enterprise and its replacement by a "planned" system under central direction and control.

There are other reasons for this belief, arising from the essential connexion between freedom and enterprise, and from what appears to me to be the fatal incompatibility between free political institutions and a centrally controlled economic system. The best opinion of scientific writers and of business men alike has been emphatic in drawing attention to the danger of bureaucratic methods when applied to business problems.<sup>1</sup> But the danger to freedom may be even greater than the danger to enterprise. The free enterprise of business men finds expression in the continual invention and development of new comforts and amenities for the consumer. These things, when first put on the market, are almost always expensive; they are luxuries available only to the few. The readiness of wealthy men to spend large sums on acquiring them makes further development possible, until in time the price is so reduced and output so expanded that what were luxuries for the few become ordinary comforts available to the many. But if all production were in the hands of a central planning authority, responsible in its turn to Parliament and the vote, great obstacles might be put in the way of this natural and advantageous process. It is not easy to see how a central planning board would be able, even if

<sup>1</sup> See, for example, Marshall, *Principles of Economics*, Book IV, Chapter 12, and more particularly the final chapter of *Industry and Trade*, and (for a recent statement of the business viewpoint) a pamphlet issued by Lever Bros. & Unilever Ltd., *The Problem of Unemployment*.

it had the imagination and the will, to allocate resources to the production of things which for some time to come would necessarily be classed as "luxuries", and which no one could say for certain would ever be developed on a scale that would benefit the mass of the people. What, for example, would a central planning board, had it existed fifty years ago, have done about the motor-car? The same thing, probably, as the Government of the day did about the first steamboat. But private enterprise developed the steamboat when Government aid had been refused; just as private enterprise developed the "Spit-fire" when Government aid had been refused.

Those critics who compare our economic system with that of other countries should note that this difficulty concerning the encouragement of enterprise does not exist to anything like the same extent in a country governed by totalitarian methods. An autocratic government can direct and encourage enterprise unhampered by the opinions or the votes of slow-moving and ill-informed minds. It can transfer capital and labour here and there on a far-sighted plan without explaining its reasons or convincing large numbers of people of the necessity for its actions. That is not possible under our system of free parliamentary institutions; and it seems certain that a centrally controlled economic system, if it were to have any chance of success in this country, would necessitate political changes of a kind which most people, when they understood them, would regard as totally inadmissible.

The last two paragraphs have been in the nature of a digression. I return to the subject of advertising, and it will be seen, I hope, that my interest in the subject as a newspaper man is not less, but rather greater, than that of any business man who regards advertising solely as a means of increasing his profits or expanding his business. Yet *because* advertising is so important to the press it is impossible to rest content with a study of that relationship. It is very tempting to think that, since a free press is essential to our way of life, and since commercial adver-

## TOWARDS CONCLUSIONS

tising is essential to a free press, therefore commercial advertising will continue. But it is not true. It is not even true that a free press itself will necessarily continue, for its foundations are not so secure that they may not be sapped and undermined by the well-intentioned activities of people who have quite other objects in view. And its credit is not so great that it could certainly rely upon its value being set higher by the mass of the public than the supposed advantages to be gained by overturning the economic foundations upon which, quite fortuitously as it seems, the freedom of the press happens to rest. Therefore I am concerned, more immediately and intensely, as I claim, than any social philosopher, with the economic justification of modern competitive commercial advertising, not in its incidental functions but in its main function as a means of facilitating the production, distribution and consumption of goods. I have put aside as irrelevant for the purposes of this book the many very important questions arising from the action and reaction of journalism and advertising one upon the other. I have also put aside as irrelevant many other questions which appear to fall within the sphere of the moralist or the sociologist rather than that of the economist. It is very difficult to effect this separation. The mind of the critic is necessarily influenced by his views about the methods employed by many advertisers; about their standard of truth; the ideals to which they appeal; the habits they encourage, and so on. These are matters of great importance. But for the moment the question is about the basic economic functions of advertising, and they are here discussed on the assumption that we are dealing with advertising that is reasonably honest in its claims and ethical in its methods.

At the present time any attempt to study the economic effects of advertising is hampered by two great difficulties: (1) the lack of statistics, and (2) the absence of any guidance on the subject in the writings of those who have devoted their lives to the study of economic theory.

Twenty-five years ago, when first confronted with the fact of commercial advertising, and given some insight into its working, I was very much astonished. Nothing whatever in my education at school or elsewhere had given me any idea of the existence or meaning of this phenomenon. I tried to learn something about it. I read what the advertising experts had written, and was impressed but not wholly convinced. I turned to the economic text-books, and there found a beautifully clear and logical explanation of Production, Distribution, Value, Supply and Demand and so on, but nothing whatever about the practical problems which had suddenly become of such importance to me. After reading the text-books I felt that I could easily explain to any business man what was the matter with his business, why the demand for his products was falling and his profits disappearing. But I was luckily restrained from making any such rash experiment by something else which I had learned, and of which the text-book writers seemed to take little account—namely, that business men are not much interested in logical explanations of failure, but are much more concerned to find methods, logical or illogical, which can be used to turn failure into success. When difficulties arise they try to overcome them; when demand falls off they try to restore it; when costs are high because plant is working at less than full capacity, they try to find means of disposing of a larger output. They do not take “the wider view”; they struggle with their own problems. In doing this they are actuated by the profit motive, but not in a narrow or selfish sense. They are very conscious of their responsibility to their employees, their agents and customers, their suppliers, and so on.

Advertising, as we saw in Chapter One, developed because it was found to be a useful means of dealing with practical problems. In scores of cases it “did the job”, and the business man was satisfied. The need for a theory of advertising was only felt when a class of professional advertising men arose and sought to “sell advertising” to

## TOWARDS CONCLUSIONS

other manufacturers who had not as yet become conscious of its possibilities. The case for advertising then built up was a one-sided case; but no blame for this can properly be attached to the business economists who did the building. They were in general sincere and honest in what they said, and were scarcely conscious of the fact that they were in no position to see the problem as a whole. This should have been the task of the political economists; but they, under the influence of those strong-minded, self-confident, sometimes wrong-headed giants of the nineteenth century, ignored the problem altogether and remained content to work out the implications of a theory of supply and demand, and of value, without the smallest reference to the increasingly energetic efforts of business men to bring demand under their own control. Thus the problem of fitting persuasive advertising into its proper place in the economic picture has been left to our own time.

Meanwhile advertising has grown up. We saw in Part I how large the business has grown, and how greatly it has affected the organisation of production, distribution and consumption in many industries. Our analysis of the advertising output (Chapter Five) yielded some very interesting results. It showed that the main bulk of modern advertising is accounted for by a limited number of industries producing consumption goods of a kind lending themselves to the practice of differentiation and branding. It is apparent that advertising, for good or ill, has encouraged these practices in many industries which formerly produced goods for sale in bulk. The question whether, on balance, the substitution of branded goods sold in packets for goods sold from bulk has been to the advantage of the consumer is one of the main questions to be answered in determining the economic value of advertising. But this is not all. We found also a strong tendency in other industries, where the possibilities of branding are less obvious, to find ways of enlisting the power of advertising to maintain or increase demand. Hence the co-operative campaigns to advertise



many basic necessities like milk, bread, potatoes, fruit, gas, coal, or electricity. In the heavy industries, too, many firms or groups of firms have taken to advertising to build up goodwill, even though their products are not normally sold directly to the public at all. Thus business men appear to have become more conscious of the value of advertising to them, at the very time when economists are at last beginning to study it seriously, and in many cases to question its value to the consumer and the community as a whole.

## II. SUBJECTS FOR INQUIRY.

I do not propose to recapitulate the arguments reviewed in the preceding chapters. This book will have served its main purpose if it has helped to reveal the wide field for research that lies open to inquiry. The gaps in our knowledge of what advertising really does are wide, and the information required to fill them may be divided roughly into two broad groups: (1) General statistical information as to the use of advertising and its relation to the broad movements of industry and trade; (2) Specific information as to the influence of advertising upon the price, quality, etc., of goods in those industries in which it has been extensively used.

Under the first heading we need a much more accurate estimate of the total expenditure on advertising in this country. We need also a system of statistics enabling us to see the expenditure year by year, and if possible quarter by quarter, so that we can measure the rise or fall of advertising against the rise or fall of general economic activity. To some extent, as we have seen, this picture may be obtainable through analysis of the figures published by *The Statistical Review*; but these relate only to press advertising, and being calculated at the scale rates of the individual journals would fail to reveal the true extent of any fall in expenditure which might be partially concealed by the practice, common enough in bad times, of "cutting rates". It may prove impossible to secure

## TOWARDS CONCLUSIONS

really accurate statistics for the years that are past, but any improvement in our present knowledge will be valuable, and it is much to be hoped that business men in every branch of the advertising industry will be ready to help by making available information of a kind which too often in this country is kept severely secret. It should be possible to construct an "index of advertising activity" such as that prepared in America for *Printers' Ink* by Dr. L. D. H. Weld, which includes a large proportion of advertising expenditures in all principal media, and makes possible a fairly accurate view of the movements of advertising activity in relation to those of business generally.

Secondly, we need a much more complete and accurate break-down of the expenditure on advertising, both by industries and by individual firms within each industry. The rough picture of this break-down given in Chapter Five showed some very significant results, and enabled us to draw some useful deductions. But the analysis needs to be taken much further, and for this much more complete and reliable statistics are needed. Probably nothing would be of more value to the scientific inquirer at this stage than the ability to see exactly the extent to which advertising is used by different industries and for pushing the sale of different commodities or services; the extent to which advertising by each industry is concentrated in the hands of a few powerful firms, and so on. The destination of the expenditure, that is to say its division among the leading groups of media such as the national and provincial newspapers, magazines, posters, wireless, direct mail, etc., is also of great importance, though probably of less immediate significance for the economist.

The figure of £80 millions given in Chapter Three as an estimate of the total pre-war expenditure on advertising does not represent a net cost to the community. A substantial part of the advertising expenditure returns to the consumer in the form of cheaper newspapers and magazines, and a further part returns to him indirectly

## THE ECONOMICS OF ADVERTISING

through the contribution advertising makes to local rates, to the revenues of the railways and other transport undertakings, and so on. Dr. Borden considers that nearly half the total advertising expenditure in American newspapers, magazines and radio is in effect returned to consumers in the form of cheaper periodicals and free radio entertainment.<sup>1</sup> If radio be left out, probably the situation in this country is much the same, but only an analysis of the costs and revenues of the newspaper and other industries which provide the medium for advertising can reveal the amount which should be set off against its total cost on this account.

How many people are employed in the advertising business, and what is their share of the total national dividend? There are great difficulties in answering these questions, partly because advertising is so "mixed up" with other activities that it would not be easy to determine who is, and who is not, to be regarded as an advertising man. But the main branches of the business are fairly clearly defined, and the fact that a nebulous borderland must always exist would not destroy the value of such information as could be collected.<sup>2</sup>

There is great need for the establishment of a statistical service for the advertising business which would occupy itself with the collection of general information of this kind. Had such a service existed in years gone by, the task of analysing the economic effects of advertising would be immensely lightened. As it is, one may hope that the National Institute's inquiry will not only succeed in bringing to light much information now hidden, but will also point the way for the future, and lead to the setting up, by the Advertising Association or by some other central authority, of a department to provide and keep up to date the needed statistics.<sup>3</sup>

<sup>1</sup> *Op. cit.*, p. 68.

<sup>2</sup> Mr. Denys Thompson (*op. cit.*, p. 1) says that about 18,000 workers are employed in advertising, but does not give any authority for his statement.

<sup>3</sup> Advertising is a branch of distribution, and there is a woeful lack of information about the whole organisation of distribution in this country. Before the war there was a growing demand for a Census of Distribution, and it is much to be hoped that

## TOWARDS CONCLUSIONS

The attainment of a broad statistical view of modern advertising is, of course, only the first step towards an understanding of its economic effects. It reveals the questions that need to be answered, but research of a more detailed and specific kind will be needed before all the material is available for answering them. I return to what seem to me to emerge from our inquiry as the "key" questions by the answers to which the economic effects of persuasive commercial advertising must be judged.

### III. THE KEY QUESTIONS.

These questions are three in number. They concern the effects of advertising (1) upon the supply of goods to meet consumer demand, and more specifically, upon the price the consumer has to pay for the satisfaction of his wants; (2) upon the consumer's subjective values; and (3) upon demand.

The task of assessing these effects is, as we have seen, beset with difficulties. Advertising is accused by its critics of exercising evil influences of the most contradictory kind upon the supply of goods. Thus it is said that competitive advertising leads to the confusion of the consumer's mind by the unnecessary profusion and variety of the goods which it presses upon his notice; and this "senseless and wasteful proliferation", we are told, is the thing to be avoided.<sup>1</sup> But another complaint is that advertising leads to excessive standardisation and rigidity of production, with a consequent effort to compel the consumer to buy "more and more of fewer and fewer things". From our analysis (especially in Chapters Seven and Eight) of the way advertising works, the operation of several distinct factors can, I think, be traced. In the first place, there can be no doubt at all that advertising has helped to

after the war the demand will be renewed. Advertising experts have always been prominent in urging this reform, because of their desire to increase the efficiency of marketing and to remove some of the uncertainties that hamper the planning of advertising campaigns. But the information is needed just as much by scientific inquirers anxious to know more about the reasons for the increasing disparity between the costs of making goods and the costs of getting them into the hands of the consumer.

<sup>1</sup> Denys Thompson, *op. cit.*, p. 168.

widen the range of goods available to the consumer by speeding up the process by which new inventions are brought to the market. Secondly, when goods of a particular kind are established on the market, there is a constant tendency for rival manufacturers to seek means of "differentiating" their own particular brands. This often leads to insignificant or imaginary variations which are pressed upon the consumer as great "improvements", and in this there is undoubtedly an element of waste and confusion. But the fact that this process does often lead in the long run to real improvements must not be overlooked. Thirdly, while the influence of advertising causes a manufacturer to make his goods as different as he can from those of his competitors, it also causes him, within his own business, to limit as far as possible the number of styles or models he makes. Even if he is compelled by fashion or demand to manufacture many varieties, he will generally concentrate his advertising upon a few of the chief ones (those which have proved to be most popular), for in this way only can he secure the maximum benefits of standardised production. Finally, there is the tendency of advertising to promote concentration within an industry by the power which it gives to a few leading manufacturers to secure the bulk of the market for their own brands. We have seen that this power is subject to severe checks if pressed too far, and there seems to be no case in this country in which advertising has enabled any one manufacturer or group of manufacturers so to control the market that the consumer is deprived of effective choice in making his purchases.

Taking a broad view, and admitting the imperfections in any human system or organisation, it appears to me that the influence of advertising upon the supply of goods has a strong balance of advantage for the consumer. But we have to consider what he pays for this advantage; in other words, the general effect of advertising upon price.

It is plain that the use of advertising has *in some cases* resulted in lower prices through the economies it has made possible in production and distribution, and through the

## TOWARDS CONCLUSIONS

influence of competition in inducing the manufacturer to pass on a share of these economies to the consumer. But are these the representative cases? It seems to me that this question can only be satisfactorily answered by a careful study of what has actually happened in the case of many different consumer goods which have been extensively advertised over a period of time. The information can only be obtained from the manufacturers themselves, and there will be difficulties in obtaining it, since it is far from easy to isolate the many factors involved in costs. Some study should also be made of the observed reduction in unit costs which is nearly always found to follow increased output; but there the influence of advertising on *total* demand for the commodity in question is also of great importance. Marshall's view that competitive advertising is often wasteful appears to depend partly upon the assumption that the *net* gains of the advertising manufacturer (i.e. the economies effected less the cost of the advertising) must be set off against the losses sustained by other manufacturers whose goods are displaced.<sup>1</sup> But it is not certain that such losses to other manufacturers necessarily occur, and perhaps *almost* certain that when they do occur they are never equal to the gains made by the advertiser. For it is an established fact that an advertising campaign by one manufacturer tends to raise the demand for all goods of a similar kind. Whether this influence is capable of quantitative measurement is a question for the present economic inquiry; I shall have something further to say on the subject in a final word on the effects of advertising on demand. But first I turn to the second "key" question, that of the influence of advertising on the "subjective" satisfactions of the consumer.

I believe that this influence is real and important. It includes those factors of knowledge, assurance, convenience and freedom of choice which play some part in the consumer's decision when he buys advertised goods. But how is the value of these subjective factors to be measured?

<sup>1</sup> *Industry and Trade*, Book II, Chapter VII, 7.

Economic science cannot measure utilities directly. It can only do so indirectly by the test of price. If a man is observed to be willing to pay a higher price for one article than for another, then the economist concludes that he expects to obtain a greater satisfaction from its possession. If he is observed to repeat the operation, then it must be assumed that the difference in price does represent for that individual a difference in his realised satisfaction. But here the difficulty arises, for the inquirer may say, and in fact very often does say, "I have examined these two articles; in their objective qualities there is nothing to choose between them; they are exactly the same; why then is the consumer willing to pay more for one than for the other?"

The critic answers, "Because he has been deceived and misled by advertising into a misjudgment of his true satisfactions". The answer may in some cases be correct, but I wish to emphasise that it is not a scientific answer. It is an expression of opinion as to what another person's judgment of his own satisfactions ought to be. In other words, it is the expression of a moral, and not an economic, opinion; and here we are on very dangerous ground. One certain fact about competitive advertising is that it does at least enable the consumer to be the judge of his own satisfactions. He may not always appear to choose very wisely, but perhaps he would prefer to risk mistakes and occasional deception in the exercise of his own free choice, rather than submit in the matter of his daily purchases to the judgment of some central authority, however wise and benevolent.

The real truth seems to be that those critics who object to competitive advertising on the ground that it misleads the consumer are expressing their doubts about the wisdom and safety of freedom itself. They allege that the consumer is not really qualified to judge; that he is at the mercy of clever and unscrupulous men; that if he really knew the facts he would act differently. There is no evidence of this. My own view, after more than twenty

## TOWARDS CONCLUSIONS

years of study and observation, is that people are very rarely misled by advertisements except when they wish to be misled.<sup>1</sup> And few advertisements, in spite of all appearances to the contrary, are really intended to mislead. There is a robust and saving common sense, and a humour and proportion, about the ordinary consumer which are better understood by those who seek his custom than by those who are so anxious to protect him against himself. Of course, freedom is dangerous, and free competitive advertising is strong meat, not always easily digestible by delicate stomachs. For that reason it is rightly to be regarded with caution, and used with a sense of responsibility. But freedom to persuade, in economic as in religious or political matters, is the right food for a free society. Its benefits certainly cannot be fully measured in pounds, shillings and pence.

Finally, I come to the effects of advertising on demand, and this perhaps is the most immediately important question of all. For the problem of finding productive employment for all the country's resources is the problem which our system of private enterprise had failed to solve before the war, and for which, as all agree, a solution must be found. If this cannot be done without a severe restriction of personal freedom, then no doubt such a restriction of freedom will have to be faced. But is this really the position? I tried in the last chapter to indicate the bearing of the study of advertising upon this problem as I see it. If competitive advertising merely switches demand from one product to another without increasing its total volume, then no doubt it is wasteful and perhaps an impediment to the full employment of the national resources. But if it can be shown to increase the total demand for consumer goods, and at the same time to stimulate investment, then a new vista is opened up. What is the evidence?

<sup>1</sup> Perhaps I should include in the latter category those who through illness or pain are prone to become victims of the worst type of patent medicine vendor. But this is a special case, and it is certainly right that society should protect as far as it can all whose normal faculties are impaired by physical or mental disability.



Very little study has as yet been given to the effects of advertising on demand. The economists have been almost exclusively concerned with its influence on the supply and the price of goods. There is room here for some historical research. Almost exactly a century ago the development of the railways was associated with a tremendous boom in newspaper advertising; that might be taken as the starting-point. Nearly every major invention in the field of industry since that time has been developed with the aid of advertising. "Cruising" helped the shipping industry through the depression of the 'thirties, and advertising was the means by which cruising caught on. Facts like these deserve more serious attention. But there are certain indications of a still more significant kind. The late Sir John Pybus, in a Presidential Address to the Advertising Association in 1935,<sup>1</sup> drew attention to the electrical and the gas industries, which at that time were engaged in the fiercest advertising competition, but which were both expanding side by side. The number of units of electricity generated in Great Britain increased by 20% between 1932 and 1934, while during the same period the output of gas appliances by the Gas Light and Coke Company increased by nearly 60%. "In my opinion," said Sir John Pybus, "these figures blow sky-high a delusion which has for years retarded the development of advertising in certain industries. They establish that advertising secures its results not merely by redistributing demand among different producers, but by raising the whole scale of demand and by selling two articles where one was sold before."

Perhaps Sir John was inclined to deduce too much from a single example. Yet there are other indications of a similar kind. Much was heard before the war of competition between rail and road transport, and some people (not the railway managers) seemed to think that road transport would have to be severely restricted if the railways were not to be ruined. But the statistics show that

<sup>1</sup> Reprinted in a pamphlet under the title *Advertising and National Recovery*.

## TOWARDS CONCLUSIONS

during the same years referred to by Sir John Pybus both rail and road transport were increasing by leaps and bounds. The railways carried 64 million more passengers in 1934 than in 1933, while new car registrations were breaking records every quarter. Mrs. Braithwaite<sup>1</sup> quotes a manufacturer of a health product as saying that his sales increase whenever his rivals conduct an advertising campaign, and it is known that the advertisements of vacuum-cleaners increased the sale of brooms and carpet-sweepers. I remember the late Lord Dewar once saying that by advertising he had taught Americans to drink whisky, and he added, "Buchanan made a lot of money out of it".

When broadcasting began in this country timorous folk thought the newspapers were going to be ruined. We know better now. Increased supply of news and entertainment has not exhausted the demand for it; the demand has expanded with the supply. Similarly, it was thought that broadcasting would sound the death-knell of the gramophone; but, on the contrary, by "advertising" music it substantially raised the demand for gramophone records. In spite of such repeated experiences, the fear in this country is that our capital equipment and our productive resources are now so vast that when peace conditions are fully restored we shall only be able to keep them employed by measures of economic planning which will take the opportunity and the responsibility for enterprise very largely out of private hands. Of course, some people want this anyway. I do not want it. My reasons for hoping that private enterprise will survive and prevail have been indicated. But private enterprise will only prevail if it proves equal to solving the main problem which baffled it before the war. The key to that problem is "effective demand", and I believe that a further study of advertising, both by business men and by economists, may reveal that it has a more important bearing on that problem than has yet been realised.

Of course, private enterprise, with or without the aid

<sup>1</sup> *Op. cit.*, p. 93.

of advertising, cannot *alone* ensure full employment. There are many obstacles and impediments that only Government action can remove, and the social conscience of to-day rightly demands Government intervention in many forms to secure fair distribution of the products of labour, capital and enterprise. Moreover, there is a proper sphere for public enterprise as well as for private enterprise, and there is a borderland within which the best results may be obtained by public and private enterprise pulling together in double harness. No post-war plan of reconstruction will abolish the need for studying the questions raised by modern advertising. The higher the degree of socialisation involved in our plans, the greater will be the change from competitive commercial advertising to "propaganda", and propaganda presents problems of its own. Whoever controls the levers of industry, the need to stimulate consumption will remain. You may lead a horse to the water, but you must study the arts of advertising if you want to make him drink.

### IV. CONCLUSION.

In this concluding chapter I have not hesitated to express my own views. But I repeat that they are not final or dogmatic views. The comforts of certainty and the pleasures of dogmatism are reserved for those theorists who are not embarrassed in their thinking by the multiplicity and the contradictoriness of practical problems as they present themselves in the conduct of business; or, on the other hand, for those business men who prefer not to think at all outside the groove of their daily lives. My plea is not that the fact of advertising should be accepted; only that it should be studied, and studied in a different and more serious way than hitherto. This book is a contribution to the study of the economic questions about advertising; there are other questions, as I have said, but to them I hope to return in a later volume.

## INDEX

- Advertisers, Inc. Society of British, 75  
*Advertisers' Annual*, 69  
*Advertisers' Weekly*, 103 n., 158  
 Advertising: Administration, 63;  
     Agencies, 58, 63, 66-9; Case for,  
     118-31, 185; Case against, 132-45;  
     Classified, 59, 83 n.; Clubs, 78;  
     Competitive, 34, 104, 109, 125, 130,  
     180; Consultants, 70; Co-operative,  
     85-6, 103, 185; Definition of,  
     17; Display, 72, 83; Expenditure  
     on, 54-65, 82-103, 186; Film, 51,  
     62; Financial, 70, 96-7; Growth  
     of, 19-21; Informative, 17-19, 109-  
     112; Manufacturer, by, 23, 84,  
     103; Means of, 36-53; Misleading,  
     193; Novelties, 70; Outdoor, 43-6,  
     59, 71; Persuasive, 17-19, 109-12;  
     Press, 36-43, 57-9, 73, 83; Radio,  
     41, 49-50, 62; "Reminder", 45,  
     50; Retailer, by, 27, 84, 103;  
     Theatrical, 70; Uncertainties of,  
     139; War-time, 30, 126  
 Advertising Agents, 58, 63, 66-9  
 Advertising Association, The, 12, 79-  
     81, 92, 126, 188, 194  
 Assumptions of Economic Theory,  
     151-5, 161-4  
 Audit Bureau of Circulations, 78  
  
 Baster, A. S. J., 33, 132 n., 137 n.  
 B.B.C., The, 41, 50  
 Beauty preparations, 96  
 Billposting, 43-6, 59, 77  
 Borden, Dr. N. H., 17, 60, 62-5, 101,  
     137 n., 188; The Borden Inquiry  
     in America, 176-9  
 Braithwaite, Mrs., 109, 123, 135,  
     137 n., 142, 195  
 Brands, 9, 24, 34, 84, 103, 113-15,  
     127, 158, 185; Brand Monopolies,  
     136  
 British Direct Mail Association, 78  
 British Federation of Master Printers,  
     63 n., 78  
 British Medical Association, 80, 92  
 British Poster Advertising Associa-  
     tion, 44, 59, 71, 77  
 British Stationery Council, 78  
  
 Broadcasting, 41, 49-50, 195  
 Bus Advertising, 44, 60  
 Business Man's View of Advertising,  
     146-51  
 Buying Habits, 28, 134  
  
 Capital Goods, 165  
 Capitalism, 22  
 Census of Distribution, 188 n.  
 Census of Production, 55, 57, 63  
 Chamberlin, E. H., 110 n., 129 n.,  
     137 n., 157 n.  
 Cigarettes, Advertising of, 98-9, 100  
 Circulars, 46  
 Clark, Colin, 62, 123, 172 n.  
 Classical Theory in Economics, 151-4,  
     167-8  
 Classified Advertising, 59, 83 n.  
 Competition, 23, 104, 109, 130; Im-  
     perfect or Monopolistic, 31, 117,  
     137 n., 157; in Price, 28, 136, 155;  
     Non-Price, 137-41; Perfect, 153  
 Consumer, Influence of Advertising  
     on, 26, 28-33, 112-16, 141-2, 185,  
     189, 192; Satisfaction of, 28, 114,  
     141, 157-61; Subjective Valua-  
     tions, 191-3  
 Consumption: Effects of Advertising  
     on, 165-70; Schemes for "planned"  
     consumption, 31, 171, 174;  
     Stimulation of, 116, 169  
 Consumption Goods, Advertising of,  
     84, 101, 103  
 Convenience of Advertising, 29, 113,  
     115, 127, 191  
 Co-operative Advertising, 85-6, 103,  
     185  
 Cosmetics, 96  
 Costs: of Advertisir  
     tribution, 21, 11  
     Information,  
     duction, 21,  
     109, 119;  
 Courtauld, 143  
 Crawford, S.  
 Criticisms of  
     145, 178, 1

## THE ECONOMICS OF ADVERTISING

- Daily Express, The*, 38, 57  
 Demand, 23, 110, 130; Attempts to control, 28, 185; Deficiency of, 117, 165-70; Effects of Advertising on, 34, 116, 128, 169, 191, 193-6; Primary and Selective, 136  
 Department Stores, Advertising by, 27, 61  
 Differentiation of Goods, 23, 34, 85, 124, 185, 190  
 Direct Mail Advertising, 46, 60  
 Direct Mail Advertising Association, 78  
 Display, Shop and Window, 47-9, 61; Displayed Advertising, 72, 83  
 Distribution: Advertising and, 24-8, 100-3; Costs of, 21, 119; Economics in, 118-20; of Goods, 107; of Wealth, 10, 171, 196  
 Distributor, Functions of, 107-8  
 Drink, Advertising of, 86, 88, 100  
  
*Economic Journal, The*, 21 n., 109, 169  
 Economic Nationalism, 172  
 Economic Research, National Institute of, 12, 14, 80-1, 121, 160  
 Economic Theory, 10, 108, 184; Importance of, 146; Methods of, 161-164; Place of Advertising in, 10, 151-5  
 Economics of Large Scale Production, 120-4, 190; in Distribution, 118-20  
*Economist, The*, 55, 58, 81  
 Efficiency of Production, Advertising and, 125  
 Electricity, Advertising of, 85, 194  
 Electric signs, 45  
 Employment, Advertising and, 116, 165-79; Full, 165, 196; Theory of, 165-7  
*Encyclopaedia Britannica*, 29  
 Entertainment, Advertising of, 97-8  
 Ethical Problems of Advertising, 14, 112 n., 183  
 Expenditure on Advertising, 54-65, 100-3, 186; Analysis of, 82-99  
  
 Factory Production, 22  
 Fashion, 120, 139  
 Film Advertising, 51, 62  
 Financial Advertising, 70, 96-7  
 Fly-posting, 20, 43  
 Food: Advertising of, 86-8, 100; Proprietary Foodstuffs, 133-4  
  
 France, The Press and Advertising in, 40-1  
 Freedom: of Choice, 30, 115, 160, 174, 192; of Enterprise, 33-5, 173, 176, 178, 181; of the Press, 9, 36-42, 180-3; of Speech, 41  
 Full Employment, 165, 196  
  
 Gas Industry, Advertising by, 85, 194  
 Germany, The Press in, 40  
 Goebbels, Dr., 40  
 Goodwill, 9, 84, 103, 123 n., 129  
 Government: Advertising by, 38; Control by, 41, 172  
  
 Habits, Influence of Advertising on, 28-31, 134  
 Harvard Business School, 177  
 Higham, Sir Charles, 29, 43  
 Hoardings, 44  
 Holding Costs, 119  
 Household Supplies, Advertising of, 89-91, 101  
  
 Imperfect Competition, 31, 117, 137 n., 157  
 Income, Redistribution of, 171  
 Industrial Goods, Advertising of, 84, 186  
 Industrial Revolution, The, 21  
 Information in Advertising, 17, 109-112, 114  
 Institute of Inc. Practitioners in Advertising, 76  
 International Broadcasting Co., 49-50  
 Inventions, Stimulated by Advertising, 116, 123, 128, 190  
 Investment, 116, 165-70; Advertising as a form of, 169; Relation to Employment, 165-70, 172  
  
 Jevons, Professor Stanley, 140, 148  
 Johnson, Dr.; on Advertising, 21; on the Press, 37  
  
 Kemsley, Lord, 54, 148  
 Keynes, Lord, 165, 167 n.  
  
 Lever Bros. Ltd., 181 n.  
 London Poster Advertising Association, 44, 71, 77  
 London Press Exchange, 69, 82  
 Luxuries, Advertising of, 181  
 Lyons, J., and Co. Ltd., 121

## INDEX

- Magazines. See Press  
 Mail Order, 26, 99  
 Manufacturers, Advertising by, 21-4, 84, 103  
 Market Imperfections, 10, 155-7  
 Market Price, 153  
 Market Research, 73, 112, 125  
 Marketing, 22  
 Marshall, Dr. A., 22, 47, 107, 109, 129 n., 146, 174 n., 181 n., 191  
 Mass Production, 23, 123, 128, 143  
 Means of Advertising, 36-53  
 Medicines, Advertising of, 80, 91-3, 114  
 Mitchell, Charles, 67  
 Monopoly: Pure, 152; Relation of Advertising to, 103-5, 136-8; Monopolistic Competition, 31, 117, 137 n., 157  
 Motor Industry, Advertising of, 26, 94-5
- National Economy, Advertising and the, 116, 128-31, 142-5  
 National Institute of Economic and Social Research, 12, 14, 80-1, 121, 160  
 Newspapers. See Press  
*Newspaper Press Directory*, 43, 67  
 Newspaper Proprietors' Assoc., 69, 77  
 Newspaper Society, 69, 77  
 Non-Price Competition, 137-41  
 Novelty Advertising, 70
- Objections to Advertising. See Criticisms  
 Optimum Size of Businesses, 122  
 Outdoor Advertising, 43-6, 59, 71  
 Output, The Advertising, 54-65, 82-99, 185  
 Overhead Costs, Advertising and, 122
- Patent Medicines, Advertising of, 80, 91-3, 101, 114  
 Patents, 129  
 P.E.P. Report on the Press, 38, 40, 42  
 Periodical Proprietors' Assoc., 69, 77  
 Periodicals, Advertising in. See Press  
 Persuasive Advertising, 17-19, 109-12  
 Planning of Consumption and Production, 31, 181, 195; Problems of, 172-6  
 Post, Advertising by, 46  
 Post Office, Advertising by the, 38, 121  
 Posters, 43-6, 59, 71, 77  
 Practitioners in Advertising, Inst. of Inc., 76  
 Press: The, as an Advertising Medium, 36-43, 54-9; Freedom of, 9, 36-42, 180-3; in France and Germany, 40-1  
 Press Agents, 75  
 Price: as Influenced by Advertising, 101-3, 113, 118-24, 132-5, 190; as Measure of Utility, 157, 192; Competition by, 28, 136, 155; Maintenance of, 138, 140  
 Primary Demand, 136  
*Printers' Ink*, 65 n., 187  
 Printing, 55, 62, 71-3  
 Private Enterprise, 32, 173, 181, 195  
 Production: Advertising and, 21-4, 190; Census of, 55, 57, 63; Costs of, 21, 120-4; Distortion of, 133, 143; Mass, 23, 123, 128, 143  
 Profit Motive, The, 34, 106, 148  
 Profits, Effect of Advertising on, 106  
 Propaganda, 10, 35, 74-5, 103, 196  
 Propensity to Consume, The, 116, 167  
 Proprietary Association, The, 76, 92  
 Public Relations Officers, 74  
 Publicity, 17, 74  
 Publishers, Advertising by, 99, 101  
 Pure Monopoly, 152  
 Pybus, Sir John, 85 n., 194
- Quality of Goods, Effect of Advertising on, 113-14, 124-8, 142
- Radio Advertising, 41, 49-50  
 Railway Advertising, 44, 60, 194  
 Repetition, The Essence of Advertising, 42, 112  
 Reputation Created by Advertising, 114, 126, 135, 159  
 Research. See Economic Research, Market Research  
 Retail Trade, Statistics of, 61-2, 100-1  
 Retailers: Advertising by, 27, 84, 103; Effect of Manufacturers' Advertising on, 24-30; Relations with Customers, 28  
 Robinson, Mrs. Joan, 137 n., 157, 161, 163, 167 n.  
 Rothschild, K. W., 42, 111 n., 158, 169

## THE ECONOMICS OF ADVERTISING

- Satisfaction, Consumer, 28, 108, 114,  
 157-61, 191-3  
 Saving, its Relation to Employment,  
 166  
 Selective Demand, 136  
 Selling Costs, 102, 109, 119  
 Service to Consumer, 27 n., 114, 126  
 Sheldon, C., 44 n., 71, 77  
 Shopping, Influence of Advertising  
 on, 28-33, 127, 158  
 Signs, Advertisement, 45  
 Skywriting, 45  
 Soap-flakes, Advertising of, 135  
 Social Problems of Advertising, 11  
 Somervell, A. C., 149  
 Standard of Living, Advertising and  
 the, 116, 128, 144  
 Standardisation of Goods, 120, 190  
*Statistical Review, The*, 54, 58-9, 64,  
 82, 186  
 Statistics of Advertising, 54-65, 82-  
 103, 186-9  
 Subjective Values, Advertising and,  
 191-3  
 Supply of Goods: Effects of Adver-  
 tising on, 189-90; Supply and De-  
 mand, Theory of, 151-5, 185  
  
 Taylor, F. W., 54-5, 125  
 Thompson, Denys, 31, 134 n., 139 n.,  
 144 n., 174 n., 188 n.  
 Thompson, J. Walter Co., 50, 62  
*Times, The*, 37, 38, 66, 74 n., 127  
  
 Toilet Goods, Advertising of, 96  
 Trade Cycle, The, 166  
 Trade Marks, 24, 129 n., 137 n.  
 Transport, Advertising of, 94-5  
 Typewriters, Advertising of, 129 n.  
  
 Uncertainty of Advertising, 139  
 Unemployment, 10, 165-72  
 Unit Costs, Advertising and, 123, 191  
 U.S.S.R.: Advertising in, 126 n.;  
 Control of Industry in, 174  
 Utility: Advertising as Creator of,  
 107-8; Attempts to Measure, 157-  
 161, 192; Definition of, 108  
 Utility Goods, 30, 159  
  
 Value, Theory of, 152, 161-4, 185  
 Values, Subjective, 191-3  
 Variety of Goods, Influence of Adver-  
 tising on, 28-32  
  
 Wants: Consumer, 28, 108; Deter-  
 mined by Activities, 174  
 War, The, Effects on Advertising, 30  
 Waste, Advertising as a Cause of,  
 110, 138-9, 143  
 Wearing Apparel, Advertising of, 93-  
 94, 100  
 Weld, Dr. L. D. H., 65 n., 103, 187  
 Wholesalers, Effects of Advertising  
 on, 24-8  
 Window Display, 47, 61  
*World's Press News*, 54









12297

